SOCIAL SECURITY COST-OF-LIVING INCREASE

HEARING

BEFORE THE

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HOUSE OF REPRESENTATIVES

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SOCIAL SECURITY COST-OF-LIVING INCREASE

THURSDAY, SEPTEMBER 20, 1984

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The committee met at 9:35 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. Dan Rostenkowski (chairman of the committee) presiding.

[The press releases announcing the hearing and staff background material follow:]

[For immediate release, Wednesday, Aug. 8, 1984]

HON. DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARINGS ON THE SOCIAL SECURITY COST-OF-LIVING INCREASE

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced the Committee will hold a public hearing on Tuesday, September 11, 1984, at 2:00 p.m., in the Committee's main hearing room, 1100 Longworth House Office Building, to hear testimony on the proposed payment of a social security cost-of-living benefit increase (COLA) in December, 1984. The Committee will receive testimony on this proposal from the Administration, from the Congressional Budget Office, and other invited witnesses.

Under current law, a social security benefit increase is payable in December of each year (paid in the January check) only if the Consumer Price Index (CPI-W) has increased by 3 percent or more over the preceding year (measured by the third quarter average of the increase year over the third quarter average of the preceding year). The law also requires that in any year in which such a general benefit increase is paid, increases (based on the increase in average covered wages) must be made in two other measures: the contribution and benefit wage base, setting the maximum wages on which social security taxes may be paid, and the earnings test exempt amount.

In light of the low rate of increase in the CPI since the third quarter of 1983, there has been considerable speculation that this 3-percent requirement may not be met, and that therefore no COLA would be payable in December, 1984. As a result of this speculation, the Senate has approved a provision to require payment of a COLA in December even if the 3-percent level is not met (which will not be known for certain until October). The purpose of the Committee's hearing is first, to examine the necessity for legislation to insure a COLA payment, and the impact of such a payment on the social security trust funds and on other government programs, and second, to explore the various alternative methods of making such a legislative change.

In announcing the hearing, Chairman Rostenkowski stated: "The Committee on Ways and Means has the principal responsibility for insuring that any changes in the law that would increase social security expenditures do not endanger the solvency of the program. We want to be sure, as well, that in guaranteeing a benefit increase in December, we make the necessary changes in the law on a technically sound basis, and that there are no unforseen effects of such an increase. For example, the provision approved by the Senate apparently contains technical errors which could inadvertently prevent benefit increases for some groups of beneficiaries. These errors, and any other technical problems that may exist, must be corrected before the bill becomes law. The Committee believes that any changes in a program

as important to all Americans as Social Security warrant careful examination. We are particularly concerned about the timing of this action, as well as the haste with which many have been tempted to act. This hearing will provide the Committee with the information we need to act responsibly. We intend to ensure a benefit increase for social security recipients based on knowledge and considered policy choices, rather than on hasty responses to preliminary economic data."

WRITTEN STATEMENTS FOR THE RECORD OF THE HEARING

Testimony will be received from invited witnesses only. All other interested parties wishing to submit written statements for the record of the hearing are encouraged to do so. Persons submitting a written statement should submit at least six (6) copies by the close of business Friday, September 14, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Mean, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the hearing wish to have their statements distributed to the press and the interested public, they may provide 100 additional copies for this purpose to the Committee office before the hearing begins.

[For immediate release, Wednesday, Sept. 19, 1984]

HON. DAN ROSTENKOWSKI (D., ILL.), CHAIRMAN, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A CHANGE OF TIME FOR THE RESCHEDULED HEARING ON THE SOCIAL SECURITY COST-OF-LIVING INCREASE

The Honorable Dan Rostenkowski (D., Ill.), Chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced that the rescheduled hearing on the proposed payment of a social security cost-of-living benefit increase (COLA) in December, 1984, will begin at 9:30 a.m. instead of 2:00 p.m., as announced yesterday. The hearing, which was originally scheduled for September 11, 1984 (see Press Release #26), has been rescheduled for Thursday, September 20, 1984, and will be held in the Committee's main hearing room, 1100 Longworth House Office Building. The Committee will receive testimony on this proposal from the Administration and other invited witnesses. All other details remain the same (as outlined in Press Release #26) with the exception of an extension of time for submitting statements for the record as follows:

WRITTEN STATEMENTS FOR THE RECORD OF THE HEARING

Testimony will be received from invited witnesses only. All other interested parties wishing to submit written statements for the record of the hearing are encouraged to do so. Persons submitting written statements should submit six (6) copies by the close of business Friday, September 28, 1984, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

SOCIAL SECURITY AUTOMATIC COST-OF-LIVING BENEFIT INCREASE

BACKGROUND

The current provision for automatic cost-of-living increases was enacted in 1972. The COLA was intended to control benefit increases, insuring that they did not exceed increases in the cost-of-living, and to provide increases on a regular, predictable basis.

This original provision contained the requirement that an increase would only be paid in years in which the CPI increases by at least 3 percent during the measuring period. If in any year the CPI does not increase by 3 percent, the measuring period continues to run from the year of the last increase, so that in the next year, a cumulative increase would be calculated. For example, if the CPI only rises by 2.9% from the third quarter of 1983 through the third quarter of 1984, no COLA will be paid in January, 1985. The following year, the change in CPI would be measured from the third quarter of 1983 through the third quarter of 1985, a two-year period; thus, the January 1986 COLA would take account of the 2.9% for 1983–84 as well as subsequent inflation for 1984–85.

There were two reasons for this trigger:

(1) Under the economic assumptions used in 1972, it was anticipated that the CPI would increase by more than 3% only in 1975 and 1976, the first two years a COLA

was scheduled to be paid. In the following years, the CPI was estimated to remain at 2.75%, which meant a COLA would have been paid only about once every two years.

(2) It was also argued that there was little point in paying a COLA so small that the administrative costs of programming the increase might rival the benefit costs.

Since 1975, of course, a COLA has been paid every year, in amounts far above 3%; the lowest COLA so far—3.5%—was paid in January, 1984, delayed from July, 1983 as a result of the 1983 Social Security Amendments.

Several other social security program changes occur each year as a result of increases in social security benefits: the contribution and benefit base increases by the amount of the increase in average covered wages. The 1985 increase is estimated to be from $37,800 to $39,300, resulting in increased social security taxes for about 8 million workers and their employers, totalling around $1.7 billion in 1985-86; the amount of earnings exempt from the retirement test increases by the same percentage. This increase is estimated to be from $6,960/yr. to $7,200/yr. for beneficiaries aged 65-69; SSI benefits increase by the same amount; part B Medicare—SMI—premiums increase from $14.60 to $16.30. (although the 1985 SMI premium will occur whether or not a COLA is paid);

In addition, several other non-social security program increases are linked to the social security COLA: railroad retirement benefits and veterans' needs-based benefits increase by the same amount; income limits for determining eligibility for Medicaid are increased, and standards for food stamps, housing assistance and AFDC may also be affected.

No other Federal program with automatic increase (i.e. civil service retirement, military pensions, etc.) contains a trigger provision like the 3 percent provision for social security.

CURRENT SITUATION

As the figures stand now, it is very possible that a social security COLA will not be automatically payable in January, 1985. The current rate—including the July data—stands at about 2.9 percent, and the social security actuaries are estimating that a benefit increase of anywhere between 2.8 and 3.2 percent is possible.

It will not be known definitely whether or not the CPI has exceeded the 3.0 percent trigger until close to the end of October, well after Congress is scheduled to adjourn for the year. In order to insure that a benefit increase is paid in January, the Social Security Administration must begin programming the increase immediately after the amount is definitely determined in October. Therefore, any delay between determination of the amount and the beginning of actual programming because of uncertainty over possible legislative action, would result in either a delay in the payment of the increase, or massive errors in benefit check amounts for January and later months.

The Senate has passed a bill, H.R. 1428, which provides for a one-time waiver of the 3-percent trigger. Senator Moynihan has also introduced S. 2923, which would permanently eliminate the trigger, and correct certain technical flaws in the Senate-passed bill. On the House side, Rep. Conable has introduced H.R. 6019, which would permanently eliminate the trigger.

CONSEQUENCES OF NOT PAYING A COLA IN JANUARY 1985

The measuring period for the December, 1984 COLA (paid in the January, 1985 check) extends from the third quarter of 1983 through the third quarter of 1984. If no COLA is paid in December, 1984, the next COLA would be payable in December, 1985. The measuring period for this COLA would be from the third quarter of 1984 to the third quarter of 1985. Therefore, beneficiaries will get an inflation adjustment for the 1984 period eventually, even if it is not paid in January, 1985.

If a "double" COLA is paid in January 1986, one cohort of beneficiaries, those who first become eligible for benefits in 1985 will get a double-compensation for the 1983-84 measuring period. This group will have their wage records wage-indexed for the 1983-1984 period, as required by the law for initial benefit calculations. But, in addition, this group will get the January 1986 COLA, as well as for the 1984-85 period which includes an increase for the 1983-84 period. This group will therefore have higher benefits on a permanent basis because of this "double-indexing" for one year.

It is also possible that beneficiaries who would be entitled to an increase for January 1985 except for the 3 percent trigger, will get an increase in January 1986 that is higher (or lower) than the two separate increases would have been. This is because in totalling the increase for the double measuring period, some rounding will be done; depending on the exact figures, rounding to the closest tenth of a percent

could produce either a higher or a lower total. Therefore, the short-range estimates for the cost/savings of eliminating or waiving the trigger are somewhat soft, since the rounding effect could substantially affect the actual outcome, by as much as $80–$100 million per year.

In addition to the impact on OASDI benefits, non-payment of a COLA in 1985 would result in the following: leaving the earnings base at the 1984 level, with a resulting loss in trust fund income; leaving the retirement earnings test exempt amounts at the 1984 level, with a resulting decrease in trust fund outlays; freezing SSI and the other program benefits at 1984 levels; an ad-hoc increase in the SMI premium required by the 1983 Amendments would take place whether or not there is a COLA increase for beneficiaries. Therefore, benefit checks in most cases would be reduced in January to pay for the premium increase; if a 2.9 percent increase is paid, the cost of the premium will be covered, so that checks will increase slightly.

CONSEQUENCES OF ENACTING A ONE-TIME WAIVER

The Senate bill already enacted simply waives the 3 percent trigger for the December 1984 benefit increase.

The cost of waiving the trigger on a one-time basis is a result of netting out the various effects of raising benefits for current beneficiaries, avoiding windfalls to people becoming eligible in 1985, increasing revenues from the increased wage base, increasing benefit outlays from raising the retirement test exempt amount, and lower interest income to the trust funds as a result of the increased outlays.

Impact on the Trust Funds:

Table 1 shows the estimated benefit increases, wage base and retirement test exempt amounts under a proposal to waive the 3-percent trigger for 1985. Table 2 shows the differences in income and outlays, as a result of waiving the 3-percent trigger for 1985 only; Table 3 shows the impact on trust fund balances. These estimates are based on the 1984 Trustees' Report II–B assumptions, updated to reflect an additional $2.4 billion payment into the trust funds from the general funds for the military wage credit provision of the 1983 Amendments.

The estimates assume a 2.9 percent benefit payment in 1985; previous estimates assumed a 2.7 percent increase, but data for August make a 2.9 percent increase far more likely. Table 3 also reflects the impact of lower interest income to the trust funds in the reserve totals—Table 2 does not reflect any interest impact. The long range effect of a one-time waiver is negligible—less than .005 percent of taxable payroll.

Table 2 shows that the net cost to the trust funds over the 10-year period is around $400 million, taking into account the $5 billion payment for the COLA in 1985, the avoidance of the windfall to the 1985 cohort of new beneficiaries which saves $300–$500 million per year, and the additional revenue from raising the taxable earnings base for 1985.

Table 3 shows that the impact on the trust funds over the next ten years would be to lower reserve levels by about $4.2 billion by 1993, or about 2 percent of annual outlays. This loss is primarily due to interest lost on the funds paid out for the benefit increase in 1985.

These estimates also assume correction of a technical error in the Senate-passed provision, which as currently drafted would apply the benefit increase only to beneficiaries who have become entitled to benefits since 1978.

Tables 4, 5, and 6 show the impact of a waiver under the pessimistic alternative III assumptions. All tables show that while the reserves would be lower, the stabilizer provision enacted last year would still not be triggered even under the pessimistic assumptions. However, under pessimistic assumptions, the reserves would dip below 20 percent in 1988, before the tax increase in that year takes effect. The estimates also show that under either set of assumptions, repayment from the OASI fund of the amounts owed to the HI fund would be slightly delayed.

CONSEQUENCES OF ENACTING A PERMANENT ELIMINATION OF THE TRIGGER

The short-term financial impact of a permanent elimination of the trigger is the same as a one-time waiver. The long-term impact is more complicated. Under current law, if a period of deflation occurs, no COLA would be paid that year, and the period of deflation would be reflected in the next benefit increase, making it lower for the two-year period. Eliminating the 3-percent requirement therefore does not guarantee an increase each year, and requires some provision for how periods of deflation should be taken account of in the next increase.

However the deflation question is answered, the long-range impact of eliminating the trigger is an improvement in the actuarial balance of .01 percent of taxable pay-

roll. Under current law, the 3-percent requirement is expected to result in no COLA about 29 percent of the time. Therefore, the increased revenues as a result of wage base increases that would not occur under present law are slightly higher than the increased benefit costs. This figure does not take lost interest income into account—however, the high short-term impact from interest income is due mainly to the high interest rates currently prevailing, which are not expected to stay at those levels over the next 75 years.

TABLE 1.—ASSUMED BENEFIT INCREASES, CONTRIBUTION AND BENEFIT BASES, AND ANNUAL EXEMPT AMOUNTS UNDER THE RETIREMENT EARNINGS TEST, UNDER PRESENT LAW AND UNDER THE PROPOSAL TO ELIMINATE THE 3.0-PERCENT TRIGGER REQUIREMENT FOR DECEMBER 1984 (BASED ON MODIFIED ALTERNATIVE II–B ASSUMPTIONS)

Calendar year	Benefit increase (percent)		Contribution and benefit base		Annual exempt amount for—			
					Beneficiaries under age 65		Beneficiaries aged 65–69	
	Present law	Proposal	Present law	Proposal	Present law	Proposal	Present law	Proposal
1984		2.9	$37,800	$37,800	$5,160	$5,160	$6,960	$6,960
1985	8.5	5.4	37,800	39,300	5,160	5,400	6,960	7,200
1986	5.5	5.5	41,700	41,700	5,640	5,760	7,680	7,560
1987	5.2	5.2	44,100	44,100	6,000	6,120	8,160	8,040
1988	4.6	4.6	46,800	46,800	6,360	6,480	8,640	8,520
1989	4.3	4.3	49,800	49,800	6,720	6,840	9,120	9,000
1990	4.0	4.0	52,800	52,800	7,080	7,200	9,720	9,480
1991	4.0	4.0	55,800	55,800	7,440	7,560	10,320	10,080
1992	4.0	4.0	58,800	58,800	7,800	7,920	10,920	10,680
1993	4.0	4.0	62,100	62,100	8,280	8,400	11,520	11,280

Notes.—(1) The values shown in this table are based on the intermediate (alternative II–B) assumptions in the 1984 Trustees Report with the exception that the CPI for Urban Wage Earners and Clerical Workers is assumed to increase by 2.9 percent (instead of 4.7 percent, as assumed in the Trustees Report) from the third quarter of 1983 through the third quarter of 1984.

(2) Because of the rounding method specified in the law, the retirement earnings test exempt amounts under present law and under the proposal differ somewhat after 1985—based on the particular assumptions described above. However, no rounding differences occur in the contribution and benefit base after 1985, based on the assumptions described above.

TABLE 2.—ESTIMATED SHORT-RANGE COST EFFECTS OF ELIMINATING THE 3.0-PERCENT TRIGGER REQUIREMENT FOR THE DECEMBER 1984 OASDI BENEFIT INCREASE, ON THE BASIS OF MODIFIED ALTERNATIVE II–B ASSUMPTIONS [1]

[In millions of dollars]

Year	Additional OASDI benefit payments	Additional contribution income		
		OASDI	HI	Total
Calendar years:				
1984				
1985	5,178	1,196	296	1,492
1986	−244	188	44	232
1987	−334			
1988	−395			
1989	−449			
1990	−476			
1991	−492			
1992	−502			
1993	−510			
Total for 1984–93	1,776	1,384	340	1,724
Fiscal years:				
1984				
1985	3,886	485	120	605
1986	1,124	899	220	1,119
1987	−324			
1988	−377			

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TABLE 2.—ESTIMATED SHORT-RANGE COST EFFECTS OF ELIMINATING THE 3.0-PERCENT TRIGGER REQUIREMENT FOR THE DECEMBER 1984 OASDI BENEFIT INCREASE, ON THE BASIS OF MODIFIED ALTERNATIVE II–B ASSUMPTIONS [1]—Continued

[In millions of dollars]

Year	Additional OASDI benefit payments	Additional contribution income		
		OASDI	HI	Total
Fiscal years—Continued				
1989	−438			
1990	−472			
1991	−488			
1992	−500			
1993	−508			
Total for 1984–93	1,903	1,384	340	1,724

[1] The CPI–W increase from the third quarter of 1983 through the third quarter of 1984 is assumed to be 2.9 percent; subsequent CPI increase assumptions are unchanged.

TABLE 3.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS UNDER PRESENT LAW AND UNDER THE PROPOSAL TO ELIMINATE THE 3.0–PERCENT TRIGGER REQUIREMENT FOR DECEMBER 1984 ON THE BASIS OF THE 1984 TRUSTEES REPORT ALTERNATIVE II–B ASSUMPTIONS (MODIFIED IN 1984) [1] CALENDAR YEARS 1983–93

[Dollar amounts in billions]

Calendar year	Income		Outgo		Interfund borrowing transfers to HI [2]	
	Present law	Proposal	Present law	Proposal	Present law	Proposal
1983	$171.3	$171.3	$171.2	$171.2		
1984	187.0	187.0	181.5	181.5		
1985	202.5	203.6	185.7	190.9	−$2.5	−$1.8
1986	222.6	222.4	206.1	206.0	−9.9	−10.4
1987	242.9	242.4	223.0	222.7		−.2
1988	279.4	278.9	240.2	239.8		
1989	303.8	303.4	257.1	256.6		
1990	334.8	334.4	274.4	273.9		
1991	360.2	359.8	291.9	291.5		
1992	386.2	385.8	310.4	309.9		
1993	414.5	414.1	329.7	329.2		

	Net increase in funds		Funds at end of year		Assets at beginning of year as a percentage of outgo during year [3]	
	Present law	Proposal	Present law	Proposal	Present law	Proposal
1983	$0.1	$0.1	$24.9	$24.9	14	14
1984	5.5	5.5	30.3	30.3	21	21
1985	14.3	10.9	44.7	41.2	24	23
1986	6.6	6.0	51.2	47.2	29	27
1987	19.9	19.5	71.1	66.8	30	29
1988	39.1	39.1	110.2	105.8	37	36
1989	46.7	46.7	156.9	152.5	51	49
1990	60.4	60.4	217.3	213.0	65	64
1991	68.3	68.4	285.6	281.3	83	81
1992	75.8	75.9	361.4	357.2	100	99
1993	84.7	84.8	446.2	442.0	118	116

[1] The CPI–W increase from the third quarter of 1983 through the third quarter of 1984 is assumed to be 2.9 percent; subsequent CPI increase assumptions are unchanged. In addition, military service reimbursement adjustment of $2.4 billion which was credited on June 1, 1984 is reflected in above estimates.

[2] Figures represent repayments from the OASI Trust Fund to the HI Trust Fund.

[3] Assets at beginning of year are defined as assets at end of prior year, plus the advance tax transfers for January.

TABLE 4.—ASSUMED BENEFIT INCREASES, CONTRIBUTION AND BENEFIT BASES, AND ANNUAL EXEMPT AMOUNTS UNDER THE RETIREMENT EARNINGS TEST, UNDER PRESENT LAW AND UNDER THE PROPOSAL TO ELIMINATE THE 3.0-PERCENT TRIGGER REQUIREMENT FOR DECEMBER 1984 (BASED ON MODIFIED ALTERNATIVE III ASSUMPTIONS)

Calendar year	Benefit increase (percent)		Contribution and benefit base		Annual exempt amount for—			
					Beneficiaries under age 65		Beneficiaries aged 65–69	
	Present law	Proposal	Present law	Proposal	Present law	Proposal	Present law	Proposal
1984		2.9	$37,800	$37,800	$5,160	$5,160	$6,960	$6,960
1985	8.8	5.7	37,800	39,300	5,160	5,400	6,960	7,200
1986	6.0	6.0	41,400	41,400	5,640	5,640	7,680	7,560
1987	5.4	5.4	43,500	43,500	5,880	5,880	8,040	7,920
1988	5.1	5.1	46,200	46,200	6,240	6,240	8,520	8,400
1989	5.0	5.0	48,900	48,900	6,600	6,600	9,000	8,880
1990	5.0	5.0	51,900	51,900	6,960	6,960	9,480	9,360
1991	5.0	5.0	54,900	54,900	7,320	7,320	10,080	9,960
1992	5.0	5.0	58,200	58,200	7,800	7,800	10,680	10,560
1993	5.0	5.0	61,800	61,800	8,280	8,280	11,280	11,160

Notes.—(1) The values shown in this table are based on the pessimistic (alternative III) assumptions in the 1984 Trustees Report with the exception that the CPI for Urban Wage Earners and Clerical Workers is assumed to increase by 2.9 percent (instead of 5.3 percent, as assumed in the Trustees Report) from the third quarter of 1983 through the third quarter of 1984.

(2) Because of the rounding method specified in the law, the retirement earnings test exempt amounts under present law and under the proposal differ somewhat after 1985, but only for beneficiaries aged 65–69—based on the particular assumptions described above. However, no rounding differences occur in the contribution and benefit base after 1985, based on the assumptions described above.

(3) The benefit increases that were shown in the 1984 Trustees Report for December of each year 1985 and 1986, on the basis of the alternative III assumptions, were limited by the "stabilizer" provision. Because of more favorable experience since the 1984 Trustees Report was prepared, the stabilizer provision would not be triggered under present law nor under the proposal, on the basis of the modified assumptions.

TABLE 5.—ESTIMATED SHORT-RANGE COST EFFECTS OF ELIMINATING THE 3.0-PERCENT TRIGGER REQUIREMENT FOR THE DECEMBER 1984 OASDI BENEFIT INCREASE, ON THE BASIS OF MODIFIED ALTERNATIVE III ASSUMPTIONS [1]

[In millions of dollars]

Year	Additional OASDI benefit payments	Additional contribution income		
		OASDI	HI	Total
Calendar years:				
1984				
1985	5,199	1,117	279	1,396
1986	−234	173	40	213
1987	−328			
1988	−387			
1989	−445			
1990	−477			
1991	−500			
1992	−516			
1993	−532			
Total for 1984–93	1,780	1,290	319	1,609
Fiscal years:				
1984				
1985	3,900	450	111	561
1986	1,139	840	208	1,048
1987	−317			
1988	−370			
1989	−434			
1990	−471			
1991	−495			
1992	−513			
1993	−529			
Total for 1984–93	1,910	1,290	319	1,609

[1] The CPI–W increase from the third quarter of 1983 through the third quarter of 1984 is assumed to be 2.9 percent; subsequent CPI increase assumptions are unchanged.

TABLE 6.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS UNDER PRESENT LAW AND UNDER THE PROPOSAL TO ELIMINATE THE 3.0-PERCENT TRIGGER REQUIREMENT FOR DECEMBER 1984 ON THE BASIS OF THE 1984 TRUSTEES REPORT ALTERNATIVE III ASSUMPTIONS (MODIFIED IN 1984),[1] CALENDAR YEARS 1983–93

[Dollar amounts in billions]

Calendar year	Income		Outgo		Interfund borrowing transfers to HI [2]	
	Present law	Proposal	Present law	Proposal	Present law	Proposal
1983	$171.3	$171.3	$171.2	$171.2		
1984	185.2	185.2	181.9	181.9		
1985	195.4	196.3	186.6	191.8	−$0.3	
1986	212.4	212.1	208.2	208.0	−5.5	−$1.6
1987	230.2	229.7	226.7	226.4	−6.6	−10.8
1988	263.9	263.4	245.1	244.7		
1989	286.5	286.1	263.8	263.4		
1990	317.0	316.5	283.7	283.2		
1991	342.7	342.2	304.9	304.3		
1992	368.7	368.3	327.2	326.7		
1993	396.5	396.1	350.9	350.4		

	Net increase in funds		Funds at end of year		Assets at beginning of year as a percentage of outgo during year [3]	
	Present law	Proposal	Present law	Proposal	Present law	Proposal
1983	$0.1	$0.1	$24.9	$24.9	14	14
1984	3.3	3.3	28.2	28.2	21	21
1985	8.5	4.5	36.7	32.7	22	22
1986	−1.3	2.5	35.4	35.3	25	23
1987	−3.2	−7.5	32.2	27.7	23	22
1988	18.8	18.7	51.1	46.5	20	19
1989	22.7	22.7	73.8	69.2	27	25
1990	33.3	33.3	107.1	102.5	34	32
1991	37.8	37.9	144.9	140.4	43	41
1992	41.5	41.6	186.4	181.9	52	50
1993	45.6	45.7	232.0	227.7	60	59

[1] The CPI–W increase from the third quarter of 1983 through the third quarter of 1984 is assumed to be 2.9 percent; subsequent CPI increase assumptions are unchanged. In addition, military service reimbursement adjustment of $2.4 billion which was credited on June 1, 1984 is reflected in above estimates.

[2] Figures represent repayments from the OASI Trust Fund to the HI Trust Fund.

[3] Assets at beginning of year are defined as assets at end of prior year, plus the advance tax transfers for January.

Note.—The benefit increases that were shown in the 1984 Trustees Report for December of each year 1985 and 1986, on the basis of the alternative III assumptions, were limited by the "stabilizer" provision Because of more favorable experience since the 1984 Trustees Report was prepared, the stabilizer provision would not be triggered under present law nor under the proposal, on the basis of the modified assumptions.

Chairman ROSTENKOWSKI. The committee will come to order.

The purpose of our hearing today is to fully explore the issue of paying a Social Security cost-of-living increase in the January 1985 benefit check, whether or not the current law requires it. It is not yet certain that the change in the law is needed to ensure this benefit increase in January. However, current economic indicators show that the 3-percent inflation level necessary to trigger a benefit increase might not be met.

We will not know whether legislation is necessary until after Congress has adjourned in October. Therefore, any changes to ensure an increase must be acted on now. This Congress took the actions necessary last year to ensure the solvency of the Social Security System for the next 75 years.

We made some hard choices, and the final bill reflected a national consensus that all sectors of society, beneficiaries and workers, old and young, private sector and public sector, had to share the responsibility for refinancing the Social Security System.

We successfully avoided extreme partisanship in putting that compromise package together, and since last March this committee has held the line against attempts to dismantle the package. Public confidence in the Social Security System is slowly being restored as a result of last year's actions.

In order to continue that process, this committee will continue to insist that the Social Security Program be kept out of politics. We must find ways to make the necessary changes in Social Security without raising the specter of using the Nation's most important social program as a tool for partisan political advantage.

Today's hearings were made necessary by the announcement of the President that he would suggest overriding the current law's built-in restrictions against paying COLA's of less than 3 percent. I have no doubt that the President sincerely wishes to give the Nation's elderly reassurances about his devotion to the solvency and the integrity of the Social Security Program, particularly in light of various careless statements members of his administration have made concerning the necessity to revamp the Social Security System once again. However, it is regrettable that the President chose to use the Social Security benefit increases as a vehicle for this reassurance.

One of the major reasons the automatic indexing provision was put into the law in the first place was to take Social Security out of the political cycle of the election year benefit increases. The question of whether the 3-percent trigger is good policy for the system should be designed on grounds of what is good for the program, not on what sounds good on television.

I would point out that Congress has yet to receive from the President any specific suggestions as to how this question should be addressed. We hope to hear from the Under Secretary today, who we welcome for the first time to give testimony before this committee on the President's precise proposal in the area. We will particularly be interested to know whether the President also supports raising the taxable wage base and the tax of 8 million workers along with the benefit increase.

The Senate followed the President's suggestions with swift passage of a one-time waiver of the COLA trigger. Unfortunately, the

very haste with which the Senate acted has resulted in a bill with some major technical flaws. There was also no time for reflection on the best way of revising the trigger provision or for assessing the impact of the change on programs other than Social Security.

This committee, therefore, has every intention of examining this issue to determine the best possible method for ensuring that the Nation's elderly receive the benefit increase that so many of them desperately need. We will act in a responsible way consistent with the objectives of the Social Security Program, and we look forward to today's testimony as the first step in that process.

Mr. Conable is recognized.

Mr. CONABLE. Thank you, Mr. Chairman.

I think I would agree totally with your view that Social Security should be kept out of politics, and particulary in this forum. It is very difficult to keep it out of politics in other forums, and I think the chairman will acknowledge that there has been fault on both sides relative to the politics of Social Security, the politics of fear, the politics of group manipulation.

My impression, Mr. Chairman, is that we had better not make more of this than there is to it. Many of the reasons for a 3-percent trigger which resulted in that being put in the law in the first place are no longer there. They were largely administrative, and it is my opinion that the financing aspects of this change suggested now are considerably more complicated than a casual glance would indicate.

My impression is, for instance, that it is a long-term/short-term type of problem, and that in the long term we would be better off permanently eliminating the 3-percent trigger, irrespective of the politics involved in it. The hope, then, is that the committee will, with all due deliberation, act in such a way that it will be possible for us to resolve this before we find out whether or not that trigger is in fact going to be an impediment to people receiving what would be the normal cost-of-living adjustment in January. In the interest of the system, we should not leave the issue in doubt where it can be politically manipulated.

I understand that tomorrow we will have a better idea of whether or not we are going to have a trigger, but clearly the issue is going to be in some doubt at the time this Congress adjourns, and for that purpose I believe a little wise legislation at this point would be advantageous.

I am in disagreement with the administration in that I believe that the change should be made permanently. I don't see any reason to make only a one-time or a short-time change, and so I wish to announce that I personally will be pushing for a permanent change in the law rather than the kind of change which would again make this an issue at some future time.

Thank you.

I would like to welcome my friend from New York, my senior Senator, Daniel Patrick Moynihan, a man of sparkling mien and delightful testimony as usual. I have been looking at his comments, and I am pleased to have him here before the committee.

Chairman ROSTENKOWSKI. Welcome, Senator Moynihan. You have a lot to live up to. We are ready to listen to your testimony.

STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator MOYNIHAN. Mr. Chairman, I hope to surprise you by brevity, and persuade you by fact. Two things. First, if benefits are adjusted next January, based on roughly a 2.8-percent CPI increase, the COLA will cost about $5 billion. That cost, however, will be offset, in part, by a corresponding increase in the wage base. Such is the case, automatically, with every COLA. I would note that only about 8 percent of the Nation's wage earners, the 8 percent with the highest earnings, would be affected by this increase in the wage base. The net cost of this action in 1985, then, would be about $3.3 billion.

The Social Security trust funds would seem to be in a position to provide this increase in January 1985. On January 15, 1983, the National Commission on Social Security Reform agreed to a set of recommendations to place the Social Security system on a firm financial footing. I served as a member of that Commission. The Commission's recommendations became law 3 months later, and our early hopes about their efficacy would seem vindicated. On April 5 of this year, the trustees of the Social Security trust funds—Treasury Secretary Donald T. Regan, Labor Secretary Raymond J. Donovan, and Health and Human Services Secretary Margaret M. Heckler—reported that benefits to be provided "under these programs can be paid well into the next century."

"The 1984 Trustees Report," issued this happy judgment with the assumption that in January 1985, benefits would increase 4.7 percent—that being the projected rise in the CPI as of last April. That increase would have cost the Social Security system $8.3 billion in additional benefit payments in 1985. If benefits are adjusted next January based on the 2.8-percent CPI increase we now anticipate, the costs to the OASDI funds will be roughly $3.3 billion less than the figure incorporated in the trust fund projections.

Second, Mr. Chairman, following the Senate's deliberations on the proposal to provide the COLA next January, we became aware of a flaw in the 1972 law that could be corrected by eliminating the 3-percent threshold for COLA's. Representative Conable was first aware of this flaw, and introduced H.R. 6019 to correct it.

Permit me to explain. In 1972, when Congress established the automatic cost-of-living adjustment, the Social Security Administration suggested a 3-percent threshold to avoid the burden of reprograming the computers and hand calculations for small CPI increases. The costs, it was said, simply outweighed the benefits. Congress agreed to the minimum threshold increase in the CPI before benefits were adjusted, but provided for a "catch-up" in whatever subsequent year the cumulative price rise had exceeded 3 percent.

Now we see the problems with this approach. People first eligible in a year in which a "catch-up" cost-of-living adjustment had been granted would receive a double adjustment—one for the year in which they had retired and another for the previous year or years before they retired. This double adjustment would continue for the rest of their lives, and their survivors' lives as well. That is, if the COLA due in January 1985 is delayed until January of 1986, anyone retiring in 1985 would receive a benefit adjustment in Jan-

uary of 1986 based, in part, on a period of time before he or she had retired. This overadjustment would permanently raise their benefits.

Eliminating this overadjustment would roughly offset, over the long term, the costs of providing a COLA each January. It now is clear, in fact, that eliminating the 3-percent threshold will have no significant long-range costs. This is the view of Robert J. Myers, for 23 years Chief Actuary of the Social Security Administration. I would note that, thanks to successive generations of computer development since 1975, the burden of reprograming the system's computers for a modest COLA is no longer a great one.

All this is a bit technical, but the central fact is simple. The present arrangements would overpay some recipients, that is, those retiring in a year following one—or more—for which the COLA had been proposed while depriving others of one or more year's COLA.

I respectfully urge you to approve the proposal to provide the COLA next January and consider legislation to correct the flaw in the 1972 amendments by eliminating the 3-percent threshold on a permanent basis. This would be equitable, and its long-term costs negligible.

I have a written statement, Mr. Chairman, that I would like to put in the record, and with it a letter from Mr. Robert J. Myers, former Chief Actuary of Social Security.

Mr. Chairman, that is my testimony. I introduced—Mr. Reagan proposed that the cost-of-living increase be given on July 24, and I introduced, and the Senate passed, a similar measure on July 26. That is a one-time measure. I don't think it would be the best use of this committee's time if it just thought about that one-term measure. The question is do you want to change the law.

[The prepared statement follows:]

STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM THE STATE OF NEW YORK

Mr. Chairman, my friends and colleagues on this distinguished Committee, I want to thank you for the opportunity to appear before you today to discuss the arrangements for the cost-of-living adjustments (COLA's) for Social Security recipients.

For the first time since Congress set in place automatic cost-of-living-adjustments in 1975, it appears that the Consumer Price Index (CPI) may rise less than 3 percent. We will know the precise size of the CPI increase near the end of next month. If this increase does fall short of 3 percent, nearly 40 million Social Security and Supplemental Security Income beneficiaries will not receive any adjustment in their benefits next year to reflect their increased living costs.

The marked slowing of inflation, of late is, in most respects, a welcome and happy event. But for aged and disabled Americans, lower inflation can be a mixed blessing. It may mean only modestly higher prices for the goods and services elderly and disabled citizens must purchase, but barring some change in the law, their ability to purchase these goods and services also will be reduced, albeit modestly.

Under provisions of the 1972 Social Security Amendments, whenever the rise in the Consumer Price Index exceeds three percent, as measured from the third quarter of one year to the third quarter of the next, Social Security benefits are adjusted accordingly, beginning with benefit checks received the following January. The benefit increase based on the CPI change from the third quarter of 1983 to the third quarter of 1984 would appear in checks received in the first week of January 1985—that is, the payment for December. Under current law, if the CPI does not increase by at least 3 percent during any one year, the COLA is delayed and calculated in the third quarter of the following year, to cover the two previous years. if the CPI increases less than 3 percent between the third quarter in 1983 and the third quarter of this year, therefore, the COLA calculation would be made in late 1985. As-

suming that the cumulative increase in the CPI exceeds 3 percent between the third quarter 1983 and the third quarter 1985, the benefit adjustment would be effective for the checks received the first week in January 1986. These adjustments to benefits, then, are made when the CPI increase does exceed three percent. Sooner or later, benefits are adjusted to take account of all increases in the CPI.

On July 24, 1984, President Reagan announced that while the available data indicated that the CPI would rise less than 3 percent, he intended to propose to Congress a cost-of-living-adjustment for January 1985 commensurate with whatever the CPI increase had actually been. On July 26, I introduced legislation with Senator Robert Dole, the chairman of the Senate Finance Committee, to eliminate the 3 percent threshold for this January's COLA and the same day the Senate approved the proposal by a vote of 87-3.

Should the proposal be enacted, single Americans on Social Security, who today receive average monthly benefits of $442 would receive an additional $12 each month, beginning next January. A married couple on Social Security, who now receive average monthly benefits of $700, would look forward to an additional $20 each month, consistent with rising prices in 1984. The most impoverished of our aged—those receiving SSI benefits—would receive an average additional benefit of $9 a month from the COLA.

These sums—an extra $9 or $12 or $20 per month—may not seem to be worth much to some of us. But for blind and disabled Americans and millions of retirees who don't have much, it means the ability to maintain the buying power of their current modest incomes. Some 40 million Americans—including 4 million Supplemental Security Income recipients, 1.2 million railroad retirees, and 750,000 veteran pensioners, in addition to regular Social Security recipients, would be affected next January. A COLA of just under 3 percent will keep almost a half million of them, elderly or disabled, from dropping below the poverty line.

If benefits are adjusted next January, based on roughly a 2.8 percent CPI increase, the COLA will cost about $5 billion. That cost, however, will be offset, in part, by a corresponding increase in the wage base. Such is the case, automatically, with every COLA. I would note that only about 8% of the Nation's wage earners, the 8% with the highest earnings, would be affected by this increase in the wage base. The new cost of this action in 1985, then, would be about $3.3 billion.

The Social Security trust funds would seem to be in a position to provide this increase in January 1985. On January 15, 1983, the National Commission on Social Security Reform agreed to a set of recommendations to place the Social Security system on a firm financial footing. I served as a member of that Commission, with William Archer and Barber Conable of this distinguished panel. The Commission's recommendations became law three months later, and our early hopes about their efficacy would seem vindicated. On April 5 of this year, the trustees of the Social Security trust funds—Treasury Secretary Donald T. Regan, Labor Secretary Raymond J. Donovan, and Health and Human Services Secretary Margaret M. Heckler—reported that benefits to be provided "under these programs can be paid well into the next century."

"The 1984 Trustees Report," issued this happy judgment with the assumption that in January 1985, benefits would increase 4.7 percent—that being the projected rise in the CPI as of last April. That increase would have cost the Social Security system $8.3 billion in additional benefit payments in 1985. If benefits are adjusted next January based on the 2.8 percent CPI increase we now anticipate, the costs to the OASDI funds will be roughly $3.3 billion less than the figure incorporated in the

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trust fund projections. Let me mention another encouraging development. The OASDI Trust Funds are in even sounder condition today that the Trustees' Report last April had estimated. That Report forecast a trust fund balance of $37 billion at the end of 1985. According to Social Security Actuaries, the military adjustment payment to the trust fund will exceed the trustees' expectations by some $2.4 billion. Moreover, the current economic recovery is increasing revenues for the funds at a faster rate than expected. The net result of all these developments is that at the end of 1985, the trust fund surplus now is expected to be closer to $45 billion, than to the $37 billion forecast last April.

Following the Senate's deliberations on the proposal to provide the COLA next January, we became aware of a flaw in the 1972 law that could be corrected by eliminating the 3 percent threshold for COLAs. Representative Conable was first aware of this flaw, and introduced H.R. 6019 to correct it.

Permit me to explain. In 1972, when Congress established the automatic cost-of-living-adjustment, the Social Security Administration suggested a 3 percent threshold to avoid the burden of reprogramming the computers and hand calculations for small CPI increases. The costs, it was said, simply outweighed the benefits. Congress agreed to the minimum threshold increase in the CPI before benefits were adjusted, but provided for a "catch-up" in whatever subsequent year the cumulative price rise had exceeded 3 percent.

Now we see the problems with this approach. People first eligible in a year in which a "catch-up" cost-of-living-adjustment had been granted would receive a double adjustment—one for the year in which they had retired and another for the previous year or years before they retired. This double adjustment would continue for the rest of their lives, and their survivors' lives as well. That is, if the COLA due in January 1985 is delayed until January 1986, anyone retiring in 1985 would receive a benefit adjustment in January of 1986 based, in part, on a period of time before he or she had retired. This over-adjustment would permanently raise their benefits.

Eliminating this overadjustment would roughly offset, over the long term, the costs of providing a COLA each January. It now is clear, in fact, that eliminating the three percent threshold will have no significant long-range costs. This is the view of Robert J. Myers, for 23 years Chief Actuary of the Social Security Administration. Former Commissioner of the Social Security Administration Robert M. Ball and the Office of the SSA Actuary have said that eliminating the 3 percent threshold so as to provide a COLA each January will have a "negligible" long-term cost. "Negligible", I understand is the technically correct term to describe costs of less than 0.01% of the payroll. I would note that, thanks to successive generations of computer development since 1975, the burden of reprogramming the system's computers for a modest COLA is not longer a great one.

All this is a bit technical, but the central fact is simple. The present arrangements would overpay some recipients, i.e., those retiring in a year following one (or more) for which the COLA had been proposed while depriving others of one or more year's COLA. The equitable solution, especially with the much-improved computer system, is to provide a cost-of-living adjustment each year prices rise.

I respectfully urge you to approve the proposal to provide the COLA next January and consider legislation to correct the flaw in the 1972 amendments by eliminating the 3 percent threshold on a permanent basis. This would be equitable, and its long-term cost negligible.

SILVER SPRING, MD, *August 1, 1984.*

LETTERS TO THE EDITOR.
The Washington Post.

DEAR SIR: Terry Hartle, a Resident Fellow in Education at the American Enterprise Institute, criticizes the proposal of President Reagan, as endorsed almost unanimously by the Senate, to eliminate the 3% trigger for cost-of-living (COLA) adjustments in Social Security benefits ("Pandering to the Elderly", August 1). The effect of this change would be to give beneficiaries a COLA each year based on the increase in the Consumer Price Index. The criticism is basically that this is being done for political reasons and that it will adversely affect the financial status of the program.

Unfortunately, the author is poorly informed on the subject and made several factual errors, both in regard to the proposal and on other points. Most important, as will be demonstrated later, the proposal will not cost the stated $5 billion, because there are offsets of which author was not aware. The author also states that "few members of Congress pay Social Security taxes"; in fact, the 1983 Amendments covered all members for their congressional service, beginning this year. (And horror of horrors, "actuarially" was not spelled correctly!)

Without considering the political aspects of the proposal, I believe that it is sound from technical and benefit-design standpoints. The 3% requirement was legislated in 1972 solely for administrative reasons—namely, that it would be too difficult to provide COLAs of relatively small amounts to warrant doing so. Although the Social Security Administration's computers are not in the best posible shape, they have been improved to the extent that they can readily and economically handle any size of COLA presently.

The cost aspects of the proposal are not as stated in the article. It is true that additional benefit outgo in 1984 will be about $5 billion. However, offsetting this will be additional tax income to the trust funds of about one-third of this amount from an increase in the maximum taxable earnings base as a result of the COLA being paid. (Under existing law, if there is no COLA paid, no increase in the earnings base is made.)

Two other minor cost items are present. The proposal would also permit the exempt amounts under the retirement earnings test to increase, which would result in slightly higher benefit outgo. Offsetting this would be the additional income to the trust funds resulting from the income taxes on some beneficiaries because of the higher level of benefit payments.

The most important cost element ignored by the author, and a matter where existing law is inequitable and poorly designed, it that persons who first become eligible in the year after the trigger point is not met (and the COLA is then delayed) receive an undue windfall. Specifically, under present law, if the CPI increase used to measure the COLA for the December 1984 checks is 2.8 %, then no COLA is given. Following this, if there is a further increase of 3.5% for 1985, then a COLA of 6.4% (slightly higher than the sum, due to compounding) would be paid to all beneficiaries in the December 1985 COLA. Equitably, the COLA for the 1985 eligibles should be only the 1985 CPI increase of 3.5%. Thus, the 1985 eligibles would receive a windfall of 2.9% that is perpetuated for their lifetimes. Under these circumstances, those first becoming eligible after 1985 would be affected no differently under the proposal than they would be under present law. One may ask why the 1972 legislation did not provide equitable for separate COLAs for the two categories of beneficiaries. Again, the answer was both the administrative difficulty and the matter of public understanding as to two different COLA amounts.

I estimate that, by the proposal giving proper, equitable treatment to all beneficiaries, both those now on the roll and those who first become eligible next year, the $5 billion of additional benefit payments in 1984 would be about fully offset by the future reduction in benefit outgo with respect to the 1985 eligibles. Further, the trust funds would have $1½ billion of additional income from payroll taxes in 1984. Thus, in balance, the proposal is not only desirable from a benefit-design standpoint, but also it does not have an unfavorable effect on the financing of the system.

The cash-benefits program will be in much better shape if the proposal is enacted than it was estimated to be when the 1983 Amendments were enacted. The cost estimates made at that time assumed that the December 1984 COLA would be about 4.6% and that it would have a cost of about $8 billion in 1985. Thus, with this change, which at most has only nominal long-range cost effects, the program is in much better financial state than originally estimated. It is unfortunate that errone-

ous material such as Hartle's article is published, with the effect of destroying—or not rebuilding—public confidence in the program, as it deserves.

Sincerely yours,

ROBERT J. MYERS.

Chairman ROSTENKOWSKI. Mr. Conable.

Mr. CONABLE. Thank you, Senator. I assume that your proposal in the Senate also would not change the existing law, as to the financing of any cost-of-living increase. We would expand the wage base as required by law to pay for such COLA, and would finance totally the cost in the usual manner this year, rather than postponing it until such time as the adjustment would be paid under existing law if it was below 3 percent; is that correct?

Senator MOYNIHAN. That is precisely correct, Representative Conable, and the net effect to the fund this year would be, for this year, would be $3.5 billion. I would note, however, that the projection of the trustees, which saw the funds to be in good condition into the next century, saw them to be at $37 billion at the end of next year, whereas the present projections are $45 billion. The funds are in even better shape than the trustees projected in April.

Mr. CONABLE. In the long term, this would actually save the trust fund some money because it would avoid creating an artificially high base for those people who retire next year and would get a 2-year adjustment as of the time the cumulative adjustment would become payable under the existing law?

Senator MOYNIHAN. I have to say, sir, that I think the actuaries think that there would be an interest loss to the trust funds that would offset that gain, and really you are talking about no significant long-range costs.

Mr. CONABLE. So you are talking about a wash?

Senator MOYNIHAN. A wash.

Mr. CONABLE. Thank you, Mr. Chairman, that is all.

Chairman ROSTENKOWSKI. Thank you very much, Senator, for joining us. Mr. Pickle is recognized.

Mr. PICKLE. I simply want to pay my respects to the distinguished Senator from New York, and express my appreciation for the continued interest that he has maintained for the Social Security Program. He has been a great defender and a great aid to that program.

Chairman ROSTENKOWSKI. Thank you, Senator.

Senator MOYNIHAN. Mr. Chairman, could I just take this occasion to welcome from this side of the witness stand the Honorable Charles Baker, Under Secretary of HHS, with whom I served in Government in the past, and I know you will welcome him as a distinguished public servant who is very much committed to these programs and is very welcome on that score.

Chairman ROSTENKOWSKI. Secretary Baker, on behalf of the committee, I would like to welcome you to the committee's hearing today. It is always a pleasure to see you. We have had relations before and they have always been pleasant. We are looking forward to your testimony.

STATEMENT OF HON. CHARLES D. BAKER, UNDER SECRETARY, DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY HON. MARTHA McSTEEN, ACTING COMMISSIONER OF SOCIAL SECURITY, AND HARRY BALLANTYNE, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. BAKER. Mr. Chairman and members of the committee, it has been 14 years since I last appeared before this distinguished group. I am pleased to have the opportunity today and I am glad to be back. With me today are two of my colleagues who, I think, are well known to all of the members of the committee, Martha McSteen and Harry Ballantyne.

I am delighted to be here today to discuss with you President Reagan's proposal to guarantee a cost-of-living adjustment—or COLA—for Social Security beneficiaries in December 1984 in the event that the low rates of inflation we have been experiencing do not trigger an automatic benefit increase.

The President took the initiative in looking after the well-being of the aged and others who rely on Social Security benefits, and his proposal strongly reaffirms his longstanding commitment to protect the benefits of Social Security beneficiaries.

Mr. Chairman, all Americans have benefited from the administration's success in bringing about economic recovery. Employment and disposable income are up for working people. Inflation is under control and is at its lowest sustained levels in more than a decade.

In the face of this success, it would be ironic and unfair if the 36 million Social Security beneficiaries—who were called upon last year to accept a delay in their 1983 COLA as part of the historic bipartisan solution to Social Security's financing crisis—were denied a COLA in 1984. Social Security beneficiaries deserve to share in economic recovery with other Americans.

As you know, the intent of the COLA provisions is that they operate automatically, without the need for congressional action, in order to assure that the real value of Social Security benefits is not eroded by inflation. Under present law, a Social Security COLA is triggered whenever the Consumer Price Index—or CPI—increases by at least 3 percent over a measuring period specified in the law. That measuring period, as provided by the 1983 Social Security amendments, is from the third quarter of one calendar year to the third quarter of the next. When the 3-percent trigger is met, benefits are increased for December of the current year by the same percentage as the increase in the CPI. Benefit checks reflecting the increase are paid beginning in January.

Let me pause for a moment, Mr. Chairman, and note that since the automatic COLA provisions were put into the law in 1972, inflation has consistently been at levels in excess of the 3-percent trigger; not until this administration have increases in the price of goods and services moderated to the extent that not meeting the trigger could be a possibility.

In the situation where a COLA is not triggered, because the CPI increase is less than 3 percent, present law provides for basing the COLA for the following year on the CPI increase over the preceding 2 years, rather than just the 1. Thus, absent congressional action, the CPI increase this year, if it is less than 3 percent, would

be carried over for inclusion in calculating the 1985 COLA, which would be based on the increase in the CPI for the third quarter of 1985 over the third quarter of 1983. The beneficiaries, while going to a cumulatively higher rate in 1986, would be deprived of any increase in 1985.

Automatic cost-of-living adjustments in Social Security benefits also trigger automatic adjustments in other Social Security provisions. Whenever there is a COLA in Social Security benefits, the Social Security earnings base is automatically increased for the following year. As you know, the automatic earnings base increase helps finance the automatic COLA.

When the base increases, workers earning more than the old base have a higher amount of their total annual earnings counted for Social Security purposes and, consequently, pay Social Security taxes on their earnings above the old base and up to the new one. Of course, workers with earnings below the old base are not affected.

Also whenever there is a COLA, the annual exempt amounts under the Social Security retirement test are automatically adjusted. Both this adjustment and the automatic adjustment of the earnings base are based on the annual increase in average wages, not on the increase in the CPI.

As a result of the delay in the 1983 COLA, there has only been one general Social Security benefit adjustment since June 1982; if President Reagan's proposal is not enacted and, because of low inflation, no automatic COLA occurs in 1984, Social Security beneficiaries—most of whom heavily depend on Social Security as a main source of their income—would be in the unfair position of having to face 3½ years with but a single inflation adjustment in their benefits.

Mr. Chairman, this would have occurred not in a time of crisis, when the Nation could rightfully call on all groups to share the burden of economic sacrifice, but at a time when the rest of the Nation is enjoying growing economic prosperity.

In addition, if there is no COLA in Social Security benefits, supplemental security income beneficiaries—aged, blind and disabled people with limited incomes and resources—and veterans pensioners would likewise be denied a COLA. Surely a nation enjoying the fruits of economic recovery can afford the cost of a COLA for this most vulnerable of all groups.

As Secretary Heckler announced on July 26, the Social Security Administration has done the necessary technical work in evaluating the various ways to go about implementing President Reagan's pledge to Social Security beneficiaries. Let me share with you our conclusions.

First, the administration believes congressional action to ensure COLA's for beneficiaries in the event the 3-percent trigger is not met should be restricted to 1984. Thus we support the basic thrust of H.R. 1428, as passed by the Senate on July 26, which would not make permanent changes in the COLA provisions.

Restricting the exception to the 3-percent trigger to just the 1 year, Mr. Chairman, would be consistent with the original congressional intent that the COLA provisions operate automatically, at a

threshold, while at the same time preserving flexibility to make benefit changes as circumstances warrant, as is the case this year.

Under H.R. 1428 as passed by the Senate, the automatic COLA, earnings base, and retirement test exempt amount provisions would operate exactly as they would under present law this year and in future years, except that the 3-percent trigger would be waived for 1984 alone.

Based on current projections, we are estimating that, with a COLA in December, an increase in the earnings base from $37,800 to $39,300 would occur in 1985; and the annual retirement test exempt amounts would be increased in 1985 from $5,160 to $5,400 for beneficiaries under age 65 and from $6,960 to $7,200 for beneficiaries age 65–69. The adjustments in the earnings base and exempt amounts, as I noted earlier, would be based on the increase in average wages since the last such adjustments.

I might add that a COLA under the provisions of H.R. 1428 would also go to SSI beneficiaries and recipients of veterans pensions.

We believe that H.R. 1428 should be amended, however, to eliminate the possibility of an anomalous situation where some Social Security beneficiaries might be treated differently than others. As the bill is drafted, there is some question whether beneficiaries eligible for benefits before the 1977 amendments became effective could be paid a COLA in 1984 under the COLA provision in H.R. 1428.

I will not go into the technical details of amending the provision to resolve this vital problem, but I am submitting for the record today our proposed specifications for doing so. My staff will be happy to work with the committee on the details of this important legislation.

Let me conclude my prepared statement, Mr. Chairman, by emphasizing the bipartisan nature of the President's proposal and urging the committee to act quickly to assure Social Security beneficiaries that they will share the fruits of the Nation's restored economic health just as they shared in the sacrifice last year. The best way to do this, we believe, would be through a bill unencumbered by provisions on unrelated subjects. I would be happy to respond to questions.

[Information submitted by Mr. Baker follows:]

TECHNICAL COMMENTS ON H.R. 1428, AS PASSED BY SENATE

CURRENT LANGUAGE IN H.R. 1428

That (a) in determining whether the base quarter ending on September 30, 1984, is a cost-of-living computation quarter for the purposes of the cost-of-living increases under sections 215(i) and 1617 of the Social Security Act, the phrase "is 3 percent or more" appearing in section 215(i)(1)(B) of such Act shall be deemed to read "is greater than zero".

(b) For purposes of section 215(i) of such Act, the provisions of subsection (a) shall not constitute a "general benefit increase".

POTENTIAL PROBLEM WITH CURRENT LANGUAGE

There is some question whether beneficiaries who became eligible for benefits or died before 1979 (i.e., whose benefits are based on pre-1977 amendment law) could be paid a COLA in 1984 under H.R. 1428. The authority to provide a COLA for such

beneficiaries comes from section 215(i) of the Social Security Act as in effect in December 1978. However, H.R. 1428 makes reference only to the current section 215(i).

SUGGESTED REVISED LANGUAGE

That (a) in determining whether the base quarter ending on September 30, 1984, is a cost-of-living computation quarter for the purposes of the cost-of-living increases under sections 215(i) (as currently in effect, and as in effect in December 1978 and as so applied in certain cases after December 1978) and 1617 of the Social Security Act, (1) the phrase "is 3 percent or more" appearing in section 215(i)(1)(B) of such Act as currently in effect shall be deemed to read "is greater than zero", and (2) the phrase", by no less than 3 per centum," appearing in section 215(i)(1)(B) of such Act as in effect in December 1978, shall be deemed to be omitted.

(b) For purposes of section 215(i) of such Act (as currently in effect and as in effect in December 1978), the provisions of subsection (a) shall not constitute a "general benefit increase".

Chairman ROSTENKOWSKI. Thank you, Mr. Secretary.

Mr. Secretary, is it the administration's intention to seek any changes in the Social Security COLA in the President's budget next year?

Mr. BAKER. There are no plans of which I am aware to make the kind of changes that you have referred to. If I may just quote for the record, the President personally stated, "There are no plans to make any changes to Social Security in the future because they are not needed."

Chairman ROSTENKOWSKI. Mr. Seceretary, the Reagan administration has demonstrated its concern for the elderly people who are poor and who need the cost-of-living increases. Well, if Social Security recipients deserve a cost-of-living increase, shouldn't AFDC and SSI benefits be increased as well?

Mr. BAKER. Well, the proposals that were put forward in the President's fiscal 1985 budget reflected the requirements that were perceived by the administration to be necessary for the administration of the AFDC program. Unlike this particular proviso, which is tied to specific legislation dealing with the cost-of-living, the AFDC programs are a joint activity with the states, and I believe that the budgets submitted reflected the economic conditions and needs as perceived by the administration when the budget was submitted.

Chairman ROSTENKOWSKI. Well, increases in the cost-of-living for the poor are felt across the board. If somebody is poor and disabled or elderly, certainly the benefit increase there should be correlated with what we are going to be doing for those people that are under Social Security. I am just trying to be fair across the board. I just wonder whether or not you people were thinking of that.

Mr. BAKER. Well, I think, Mr. Chairman, as I understand it, the SSI payments would indeed be tied specifically to the adjustment here being proposed, and we certainly wholly endorse that.

Chairman ROSTENKOWSKI. Mr. Pickle will inquire.

Mr. PICKLE. Thank you, Mr. Chairman.

First, I would like to ask Mr. Ballantyne or Ms. McSteen what will be the CPI when the time comes.

Mr. BALLANTYNE. Well, my crystal ball isn't quite that clear, but I believe that it will probably be in the range of 2.8 percent to 3.2 percent, based on what it is so far.

Mr. PICKLE. Between 2.8 and 3.2?

Mr. BALLANTYNE. Somewhere in that range.

Mr. PICKLE. But you do not know?

Mr. BALLANTYNE. No. We won't know until October 24, when we get the CPI for the month of September.

Mr. PICKLE. If you don't know, then we are making a guess?

Mr. BALLANTYNE. Right.

Mr. PICKLE [continuing]. Of whether it is factual or whether it is political. But it is guesswork, and the recommendation was made 60 to 90 days, over 60 days in advance of even the third quarter versus third quarter, and we still don't know. It could be, then, over 3 percent?

Mr. BALLANTYNE. It could be. It has gone up at a little bit faster rate recently. Before that it looked like it was less likely to be over 3 percent than it does now.

Mr. PICKLE. When will you know?

Mr. BALLANTYNE. The CPI increase will be based on the average CPI for the 3 months July, August, and September.

Mr. PICKLE. I understand that.

Mr. BALLANTYNE. And we won't know the September CPI until October 24, so we won't know——

Mr. PICKLE. On October 24.

Mr. BALLANTYNE [continuing]. Until October 24.

Mr. PICKLE. And of course we have to admit that on October 24, when we know that, Congress won't be in session. Whatever would take place would be conjecture on Congress' part?

Mr. BALLANTYNE. Right.

Mr. PICKLE. We have to accept that. We really won't know this until October 24.

Mr. BALLANTYNE. Right.

Mr. PICKLE. Unless we were to keep the 3 percent, should we change the law to let the determination factor be the second quarter as opposed to the second quarter of a year later? Should we change that so we wouldn't get involved always in presidential elections or congressional elections?

Mr. BALLANTYNE. I can't answer that question.

Mr. PICKLE. That would be up to Congress. Well, you don't know at this point. It is still guesswork and it could be between 2.8 and 3.2?

Mr. BALLANTYNE. Right.

Mr. PICKLE. And we are guessing now?

Mr. BALLANTYNE. Yes.

Mr. PICKLE. Both economically, factually, and politically on this.

All right. Now, Mr. Baker, when the President said that he was going to recommend that, regardless of what the CPI might be 90 days from then, he was going to recommend the 3 percent. He didn't say anything that he was also going to raise taxes. When you have a COLA do you not increase taxes at the same time?

Mr. BAKER. Well, as far as the taxes are concerned, Mr. Pickle, we are not recommending any new taxes at all. What we are recommending is that, consistent with the legislation enacted in 1972, the trigger mechanism be waived, and the law be implemented as written.

Mr. PICKLE. Mr. Secretary, you aren't answering my question. My question is, as a matter of fact, when you increase a COLA, do you not increase a wage base?

Mr. BAKER. As a matter of fact, the law requires that the wage base be increased when the COLA is increased.

Mr. PICKLE. So there is an increase of taxes. We have to admit that, on both employer and employee, to provide for the COLA: is that correct?

Mr. BAKER. There is an increase in the taxation level, Mr. Pickle. There is not any addition of new taxation.

Mr. PICKLE. If you increase the wage base, that is an increase in taxes, is it not, Mr. Baker?

Mr. BAKER. It is an increase———

Mr. PICKLE. Of course it is.

Mr. BAKER [continuing]. In the tax base, as you have described, Mr. Pickle.

Mr. PICKLE. That wage base is increased for those people in the brackets of $37,800 and above; is that correct? It won't affect the ones below that, so it is going to affect thoe people in the high brackets, $37,000 up to $39,300, or whatever the figure is?

Mr. BAKER. Aye, sir.

Mr. PICKLE. Since it goes to the higher brackets, that means then that those people, every employer in the country in that bracket is going to be paying for the COLA, for the cost of the program. My question to you then is this: When we have an increase in the COLA, should there be increase in the taxes to pay for the increase in the COLA?

Mr. BAKER. The recommendation that the administration has put forth is that the law be implemented as written, which would automatically provide for an increase in the wage base as you have pointed out.

Mr. PICKLE. Aside from what the law is?

Mr. BAKER. Yes, sir.

Mr. PICKLE. I am asking you, as a matter of accountability and fiscal responsibility, when we grant a COLA somebody is pressured under the Social Security System for solvency anyway. When we grant a COLA do we not also grant a tax increase to pay for that?

Mr. BAKER. Certainly, Mr. Pickle, if you were asking whether or not the administration should propose additional and new taxes, the answer is no. That is not the position of the administration. In the budget that we submitted—

Mr. PICKLE. Then you are saying in effect, Mr. Baker, that you want to give the COLA but you don't want to raise any tax to pay for it. You might pay for part of it under the present law, but you don't want to pay for the COLA increase?

Mr. BAKER. Well, Mr. Pickle, the President's budget for fiscal 1985, that was sent up, was based upon the notion of a COLA increase, and, indeed, a COLA increase that was expected to be somewhat larger than the one we now anticipate under this waiver.

Mr. PICKLE. I would say to you, Mr. Baker, speaking now for myself, that we are reaching the point in this consideration where we may have to consider how we would change this law, that if we do have a COLA, and it is in order in most instances, then we ought to consider do we pay for the COLA.

As it is, only one group of employers and/or employees pay for the COLA, and we only pay for about one third of it. The rest of it is absorbed by the Social Security fund, and so if you are being

honest with the American people, we have got to say—the President didn't say it—when you raise the COLA you also raise taxes, and we are only raising under the present system about one third of the money that we should have for it.

Now, when we pay the COLA for this year as you are recommending, that is an expenditure of some $5 billion; is that not correct?

Mr. BAKER. Yes, sir. I believe that our calculations are that the additional OASDI expenditure would be about $5.2 billion on the assumption that the COLA increase would be about 2.9 percent. Mr. Ballantyne may correct me on numbers.

Mr. PICKLE. Do you think we would have some embarrassment if it went over 3 percent and we passed this law to remove the trigger?

Mr. BAKER. I would think on the contrary, Mr. Pickle. I would think that we would have provided the 36 million or so beneficiaries assurance that the stability of their income will be maintained, irrespective of the potential of the CPI going slightly below the trigger.

Mr. PICKLE. If we have a one-time waiver, as you have recommended——

Mr. BAKER. Yes, sir.

Mr. PICKLE [continuing]. That has to be balanced with the fact that we pay out as a matter of expenditure this year some $5 billion. Now, you and I will have to agree that when you consider the cumulative effect of the present law, in a 5- to 10-year period, the saving is perhaps only about $1.5 billion, so under the system it doesn't. But this year we could make a saving in expenditures of $5 billion, and we are giving that up.

Now we come to the question about the money that the OASI fund has borrowed from the HI fund. Will it make any difference about the $5 billion we pay out this year? Do we have any problem at all meeting the obligation of paying funds back to the HI fund?

Mr. BAKER. I certainly will defer to my colleague, Mr. Ballantyne, for detail, but as Senator Moynihan pointed out in his earlier testimony, the amendments that were enacted to resolve the problems of the Social Security Trust Fund are such that I think it is correct to say that the fund is in good shape, and the obligations to which you refer should not be jeopardized.

Harry, do you want to add to that?

Mr. BALLANTYNE. Based on our estimates, the HI loan would be repaid by the end of 1987, under the proposal to waive the trigger requirement.

Mr. PICKLE. My figure is that we understand you can't do it. If you didn't have the expenditure, you would pay about $2.5 billion back. If you pay the COLA, you are paying one point something of $5 billion.

Mr. BALLANTYNE. 1.8.

Mr. PICKLE. So we are going to pay back less than the cost of this. Now, the President has recommended a 3.5-percent increase for Civil Service and for military people, and Congress either has or will, I am sure, approve that. You are recommending now 3 percent for Social Security. Does the Social Security recipient get the same amount as Civil Service and total workers?

Mr. BAKER. I am sorry, Mr. Pickle, I didn't catch the last part of your question.

Mr. PICKLE. My question was, since the President has recommended and the Congress either has or has not confirmed it, I don't know, a 3.5-percent increase for military and Civil Service employees, should Social Security recipients get a 3.5 percent? They are going to be getting less than the others?

Mr. BAKER. Well, I am certainly no expert at all, Mr. Pickle, on Government and military compensation, so I can't respond in any great detail, but I would say this. My understanding is that the compensation schedules that apply to both the Civil Service and the military are looked at periodically in the context of a variety of things, but not specifically related to inflation indices, or for that matter, this specific legislation, so I do think that we are talking about slightly different things.

Mr. PICKLE. Then you would not say that Social Security should get as much as the Civil Service retirees?

Mr. BAKER. I guess I am not really in a position, Mr. Pickle, to comment on that one way or another. I do not know, for example——

Mr. PICKLE. Would you venture an opinion?

Mr. BAKER. I guess the only opinion I have, Mr. Pickle, is that if the criteria upon which the judgments were made with regard, for example, to military compensation were parallel and identical to the criteria under which the Social Security beneficiary legislation compensation was structured, the answer to your question, I would have to say, is yes. My impressions are that they are really quite different.

Mr. PICKLE. Let me ask one more question, because I know I am imposing on the time of the other members. I would like to come back, in order that others can ask questions, but let me ask one more question here.

You are asking for a 1-year waiver on the COLA. The COLA was put there during the Republican administration, I might add, in order to keep politics out of the Social Security operation, so that we wouldn't give too many benefits in an irresponsible manner, and that we would be limiting COLA to this amount, and it was the administration's position at that time that the CPI would never be over 3 percent, maybe only 1 or 2 years, in 1973 and 1974. If we grant an automatic 3 percent this year, do you think if the same situation comes up next year we will have another request to forego the 3 percent trigger?

Do you think the Congress will ever really face up to the question of considering broadly the question of the COLA, the trigger? I don't know that I have a right to ask you that. That is for me to answer really more than you, but I suspect that if we grant it for this year, which we did last year and again this year, the situation is going to be the same next year, and I don't know when and how we are going to do it.

Now, should we always grant the 3 percent if it is questionable? Could you agree that perhaps we should have a cap of 2 percent, or 1 percent, or do you take the position, the administration position, the President's position, that we should have an increase in the COLA no matter what the sum is? That is what Civil Service and

military retirees get. Whatever the amount is, they get that COLA. Does the administration recommend that approach?

Mr. BAKER. Mr. Pickle, the administration is recommending that the increase granted effective at the end of this year be precisely what the third quarter to third quarter change actually turns out to be.

Mr. PICKLE. Do you agree—I have to assume so because you recommend it—that at least in the Civil Service and in the military, they will get whatever amount is calculated to have accumulated by virtue of the CPI; whether it is 1 percent or 2 percent, they get that amount? I presume if they get $1 they will get an extra amount. Ten years ago that couldn't be calculated. It would be too technical, but I guess with computers we can do those things now.

My question is, Should we just always take the position that no matter what the inflation, CPI might be, that they get at least whatever the CPI is? Now, if we do that, and you don't answer that, you just say you recommend what the law provides now. If you won't answer that question, my concern is this: When and how does the Congress now ever approach the question of entitlements on programs such as Social Security?

If we grant an increase automatically on CPI, how then can we ever involve ourselve responsibly into making some kinds of changes in the overall entitlement programs?

If we set the pattern here this year, as I imagine the Congress will, if we set the pattern that we are going to grant this, don't we weaken the chance of the Congress ever really getting into the question of entitlements?

I don't know that you can answer that, but it concerns me, and I am not trying to be impractical here or making a speech, but I know we all recognize that entitlements is a tremendously important problem we have got to face.

Now we are not going to face it if we are going to give this automatic 3 percent, and if we keep it like that. Suppose we had an automatic 3 percent as the administration has recommended at times, I believe, that you have CPI minus 2 percent. That is a good approach. Suppose then the CPI was 1.5 percent or 1.8, and if it is less than 2 percent, then you would still give them a COLA. How do we ever get to the entitlement question?

Do you have a recommendation for us with respect to these COLA's, cost of living? How do we approach this problem? What does the administration recommend we do?

Mr. BAKER. Well, with regard to the specific issue here, Mr. Pickle, the administration is strongly in favor of retaining the language of the existing law, which as you point out, on a long-term cumulative basis assures that Social Security benefits will keep pace with inflation.

As regards the one-time situation being urged by the administration at this point, I think that is reflective of special circumstances, and, I would argue, is consistent with your observation that special circumstances, in the event the trigger in an individual year is not met, warrant doing this on a year-by-year basis, which is the administration's position.

I certainly am way out of my depth, Mr. Pickle, with regard to compensation levels with the military and the civil servants. I really am not qualified.

Mr. PICKLE. I will make the observation, Mr. Baker, that when we grant this 3 percent, we make our task that much more difficult in the Congress to ever reach out to try to find an answer to the entitlement program.

Now, in conclusion, Mr. Secretary, I sent a number of questions to your department to answer for the record, as to making Social Security an independent agency. We have not received that answer. We were supposed to have it by today. Can you tell me when we will get that answer?

Mr. BAKER. Yes, sir. We were due to deliver the answers to that by close of business tonight. The answers to the seven questions you submitted have been drafted and are in the clearance process now. When I realized that we were falling slack on the delivery date, I instructed our staff to insure that the clearance process is completed this week. We will deliver that reply to you before the week is out. I apologize to you.

Mr. PICKLE. Will you tell us what is your recommendation on the question of making it an independent agency? Is it the conclusion that you do or you don't?

Mr. BAKER. Certainly as far as the detailed recommendations and answers to your questions, the clearance process now being completed, I certainly would not want to get into that. I think that Mrs. McSteen's testimony on the subject of the independent agency is wholly consistent and, indeed, approved by the administration. On balance we do not think that the Staats report and its related recommendations would solve the problems, and, indeed, would create some that do not presently exist.

Mr. PICKLE. I take that to mean that you probably are going to, if you support Mrs. McSteen's recommendations, that you would not recommend making Social Security an independent agency?

Mr. BAKER. I certainly wholly endorse Mrs. McSteen's testimony, yes, sir.

Mr. PICKLE. Well, then I can assure you there will be more discussion on that question later.

Mr. BAKER. I certainly look forward to it.

Chairman ROSTENKOWSKI. Mr. Archer will inquire.

Mr. ARCHER. Thank you, Mr. Chairman.

Just a couple of questions. What do you calculate will be the administrative cost of this change in the law?

Mr. BAKER. Again, I will defer to Harry for the complete numerical details, but on balance at this point we are thinking the net cost in calendar year 1985 for OASDI, HI, and SMI programs should come to about $4.2 billion after taking account of the revenues produced by the increase in the earnings base.

Harry, do you want to elaborate on that?

Mr. BALLANTYNE. I don't have a figure for the administrative expenses of implementing the COLA, but I think it would be very small. A benefit increase is already in the planning process in case the CPI increases at least 3 percent.

Mr. ARCHER. So we just have to spend that money, since it is already in the planning. We just have to spend it. That sounds so typical of federal programs.

Mr. BALLANTYNE. I am not saying that, but I am saying I think it would be relatively small, since an increase has already been planned.

Mr. ARCHER. It is small because it has been planned; that is your answer?

Mr. BALLANTYNE. Planned because earlier we thought there would be——

Mr. ARCHER. I understand that. I am not trying to be contentious, but it is not small just because it has been planned?

Mr. BALLANTYNE. No.

Mr. ARCHER. What are the dimensions of it? It could be planned at $1 billion and not be small.

Mr. BALLANTYNE. Yes; I don't know what the figure would be. We don't know now. We could perhaps supply that.

Mr. ARCHER. Don't you think it is kind of important for us to know how much this is going to cost administratively?

Mr. BALLENTYNE. I think it is quite small.

Mr. ARCHER. OK, but you don't have any dimensions of what quite small is?

Mr. BALLANTYNE. I think it will be less than——

Mr. ARCHER. Less than $1 million?

Mr. BALLANTYNE. I think it would be probably less than $1 million. We can supply the committee this information.

[The information follows:]

Question. What are the administration costs associated with executing the cost-of-living adjustment (COLA)?

Answer. Unless it is known with some certainty that there is not going to be a COLA 6 to 8 months in advance of the start date (January 1), approximately $1 million dollars will be expended in systems planning for execution. If the COLA is implemented as planned on January 1, the added administrative costs are approximately $4.1 million for manually processing the actions that the automated system cannot handle.

Mr. ARCHER. I am interested about this whole exercise, and I think the testimony has been very good this morning.

Mr. BAKER. Thank you, sir.

Mr. ARCHER. But what if the increase in the CPI is one-hundredth of 1 percent; then the administrative costs would clearly outweigh making the adjustment of the numbers in the checks, wouldn't it?

Mr. BAKER. Well, this time——

Mr. ARCHER. It won't be this time, I know, but we are setting a precedent here in what we are doing, and there are many who are going to urge that this be permanent, although that is not part of your proposal, and I would not at all be surprised that it would be made permanent, and if it is made permanent, then aren't we locked into a situation where if we get a one hundredth of 1 percent increase in the CPI, that we have got to go through all these calculations for a few pennies in the checks, and relatively large administrative costs?

Mr. BAKER. Well, the benefit increase is rounded to the nearest one-tenth of 1 percent, so if it is one-tenth of 1 percent——

Mr. ARCHER. All right, one-tenth of 1 percent, then.

Mr. BAKER. Let me, if I may interject, Mr. Archer, in terms of this, that that type of situation is one of the reasons that we endorsed the notion of looking at this particular case and preserving the flexibility and judgment to examine it again.

Certainly I apologize to you for not having the details on the administrative cost. As Harry has pointed out, really the reason we don't is that it was built into the original budget. We didn't shred it out in——

Mr. ARCHER. But that bothers me. That is a bad way to approach Government, and particularly from this administration, which I support, to say, well, we planned it, so it doesn't matter how much it costs.

Mr. BAKER. I agree with you completely, Mr. Archer, and certainly we will provide for the record the details on the numbers that you request, and I think the point that you are making——

Mr. ARCHER. My guess is it will be very small, and then it won't be of such a nature as to be controlling. But I would like to at least know what the numbers are.

Mr. BAKER. Aye, sir, we will provide that.

[The information follows:]

Question. Is there a point at which the benefit increase is so small that the administration costs would exceed the additional benefits?

Answer. The amount of additional benefit payments associated with the smallest possible automatic benefit increase—0.1 percent—is about $100–200 million in the first year. This amount would exceed by a wide margin the associated administrative costs, which are about $5 million.

Mr. ARCHER. Is it true, based on the prior testimony, that this recommendation in the long term will actually have a positive effect on the fund, a plus one-hundredth percent of payroll in the long term; is that correct?

Mr. BAKER. Not quite, Mr. Archer. The recommendation that we are endorsing here is not exactly—well, is not the recommendation that Senator Moynihan made, and that is where the calculation of one hundredth of percent long-term positive impact was made.

Harry.

Mr. ARCHER. What will the long term be of your recommendation?

Mr. BALLANTYNE. Of the recommendation to feliminate the trigger just for this time, for December 1984, it is a negligible long-range effect. Any effect would be less than 0.005 percent, depending on the specific assumptions.

Mr. ARCHER. 0.005 percent of payroll would be a slight negative impact?

Mr. BAKER. It could be negative or positive.

Mr. BALLANTYNE. Plus or minus. It depends on what the increase would be.

Mr. ARCHER. It basically is very close to a wash?

Mr. BAKER. That is right.

Mr. ARCHER. I assume that you have included the increase in benefits that will occur for the high wage earners as a result of having their wage base increased, which will have a long-term effect on their individual benefit structures?

Mr. BALLANTYNE. That is right.

Mr. ARCHER. What is the difference in cost between a permanent change in the law and a one-time change in the law, in the long term?

Mr. BALLANTYNE. For a permanent change, we estimate there would be a very slight savings of 0.01 percent of taxable payroll, because of the effect of increasing the base. With regard to the benefit costs, although there is the high 1-year cost, whenever the trigger would otherwise preclude an increase, there are savings in later years, because of one cohort of workers who get—as Senator Moynihan explained—who get a smaller increase.

Mr. ARCHER. So if we did it permanently, we would actually benefit the fund more in the long term than by doing it on a one-shot basis?

Mr. BALLANTYNE. Just by a marginal amount of point——

Mr. ARCHER. Nevertheless, there would be a slight benefit to the fund. Let me ask you, and hopefully this will be my last question: Have you taken into account interest on the amount of money that will be the short-term loss to the fund?

Mr. BALLANTYNE. Yes; we take that into account in the short-range projections.

Mr. ARCHER. So you are computing that the fund would be better off by virtue of having interest on the money that would be paid out next year as a short-term cost, if it were not paid out?

Mr. BALLANTYNE. That is right. Under present law, it would be better off if the increase is less than 3 percent, partly because of the interest.

Mr. ARCHER. Inasmuch as the wage base will have to go up, can you tell me when will we be notified as to the amount of maximum earnings base for 1985? Will that come before the election or after the election?

Mr. BALLANTYNE. There is a statutory requirement that it be announced by November 1.

Mr. ARCHER. So it will be, assuming that we pass this change in the law, you will be prepared to make that announcement by November the 1st?

Mr. BALLANTYNE. I don't make the announcement myself. That is not in my control.

Mr. ARCHER. But my question was, you will be prepared?

Mr. BALLANTYNE. I will be prepared.

Mr. ARCHER. Thank you very much.

Chairman ROSTENKOWSKI. Mr. Frenzel, do you have questions?

Mr. FRENZEL. Mr. Chairman, I have no questions.

Chairman ROSTENKOWSKI. Mr. Gradison will inquire.

Mr. GRADISON. Thank you, Mr. Chairman.

Mr. Secretary, I understand you are recommending a one-time adjustment. I am not sure why. I did gather that you were talking about de minimis adjustments, but that could easily be handled by putting this on a permanent basis, and identifying what would be de minimis, and that there would be no increase if it were less than 0.1 percent or something like that. Why don't you want this on a permanent basis?

Mr. BAKER. For three reasons, Mr. Gradison. The reason that the President has recommended the adjustment at this time is because of the somewhat unusual circumstances under which the benefici-

aries have lived for the last 18 months. There was built in, of course, under the Social Security amendments, a 6-month lag whereby the beneficiaries experienced a 6-month delay in their increase. That was an unusual circumstance.

Item 2 was that we are in a time when the economy is going through a very considerable recovery, and it would seem unfair, having already asked the annuitants to take the 6-month lag, to ask them to further take a delay while the rest of the economy is really recovering, and recovering strongly.

Third, in terms of legislation that was passed in the early 1970's, it seemed clear that there was a desire expressed to maintain flexibility to examine what should be done in the event that the CPI came in at less than 3 percent, and that seems to make good sense, and, indeed, it is precisely under that recognition that the recommendation is here being made, feeling that the circumstances do warrant a waiver of the 3-percent trigger.

Mr. GRADISON. Mr. Secretary, what would happen under present law if the cost-of-living went down 2 percent? What would happen to benefits? Would they be reduced?

Mr. BAKER. Negative. There would be no COLA. In present law, and if nothing was enacted here, we would not deflate the benefits, but we would grant no increase. However, the 2 percent, for example, in your suggestion would be carried over, and it would be acted on a cumulative basis, so that in the long term the annuitants' benefits would be adjusted to fully reflect what had happened over the several year period. But in the instant year if no action is taken, no increase would be made for the period when the increase was only 2 percent.

Mr. GRADISON. No adjustment in that instant year on the wage base either?

Mr. BAKER. That is correct, sir.

Mr. GRADISON. So if you had minus 2 percent in one year plus 6 percent the next year in a cost-of-living, there would be no adjustment of benefits related to the change in the CPI the first year, and a 4-percent increase the second year; is that approximately correct?

Mr. BAKER. That is correct, sir.

Mr. GRADISON. Thank you very much.

Mr. BAKER. Martha is saying something.

Mr. GRADISON. Is that right?

Mr. BAKER. She said yes.

Mr. GRADISON. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. PICKLE. Will the gentleman yield?

Let me ask the Secretary, in connection with the recommendation about this one-time removal, the President made the recommendation to waiving back in July. Why would he waive it in July?

Mr. BAKER. I think, as Harry has mentioned earlier, it was the expectation in July that the trend lines were such that the prospects of this coming in at less than a third quarter to third quarter 3-percent level was sufficiently strong so that the economic security of the individual beneficiaries should be dealt with.

Mr. PICKLE. You understand, Mr. Baker, the President is saying that in July he was looking down the road 4 months from now——

Mr. BAKER. Yes, sir.

Mr. PICKLE [continuing]. Saying that we, therefore, are going to have less than 3 percent, and we want to make that recommendation in July.

Mr. BAKER. Yes, sir.

Mr. PICKLE. Would you say that the President was tinkering with the Social Security program, politically tinkering with it?

Mr. BAKER. No, sir. I would say, Mr. Pickle, that the President was trying to make a statement as far in advance as he reasonably could to deal with a very significant issue.

Mr. PICKLE. Mr. Baker, I think if the Congress had recommended this back in July, the Congress would have been tinkering with Social Security, and perhaps we both must admit that that is what is being done. I don't think the people are being fooled.

When you give a cost-of-living, you also increase taxes for both employees and employers. That is a fact, and we are not raising enough out of the taxes, as we do on the recommendation on the waiver, and it makes our task that much more difficult to ever find some kind of answer to entitlements. I don't think we are behaving responsibly in this matter.

Chairman ROSTENKOWSKI. Mr. Hance, do you wish to inquire?

Mr. HANCE. I have no questions.

Chairman ROSTENKOWSKI. Thank you very much for joining us this morning, Mr. Baker.

Mr. BAKER. Mr. Chairman and members, thank you.

Chairman ROSTENKOWSKI. The committee is adjourned.

[Whereupon, at 10:40 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

STATEMENT OF HON. LAWRENCE COUGHLIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Chairman, I applaud your Committee for considering legislation to ensure a cost-of-living adjustment (COLA) in January, 1985, for social security recipients and I urge favorable action be taken on this type of proposal.

Our elderly and disabled must receive their COLAS when they most need them—when the Consumer Price Index (CPI) rises, whether it rises by 2.9 percent or 3 percent. Currently, the increase in the CPI from the third quarter of 1983 to the third quarter of 1984 is projected to be just below 3 percent. While this stablizing effect in the inflation rate means prices for the goods purchased by our elderly and disabled will be only slightly higher, it could also mean these individuals will not receive a cost-of-living increase in their social security payments.

As you know, under the present social security law, COLAs are not automatic and must be delayed in any year that the CPI falls below 3 percent. This provision

became part of the social security law in 1972 when social security benefits were first indexed. This provision was not part of last year's social security reform package and a waiver of this provision in 1985 should not play havoc with the solvency plan your Committee worked so hard to put together and enact into law.

The 1984 Social Security Trustees Report, issued in April of this year, projects benefits will rise by 4.7 percent in January because of the rise in the CPI. If this is the case, we would be paying $8.3 billion in social security benefits. However, if benefits were adjusted in January of next year based on the most current estimate of a 2.9 percent rise in the CPI, we would be paying about $5 billion in benefits—some $3.3 billion less than anticipated in the Trustees Report.

Unlike most of us, older Americans live on fixed incomes. They depend on the cost-of-living increases to cope with inflation they experience in the supermarket lines, their doctors' offices, and their rent and utility bills. We must assure our elderly that the safety net will not be torn apart and that their essential needs will be met.

Thank you for this opportunity to present my views to the Committee. I sincerely hope the Committee will act quickly to report out legislation to allow a COLA in social security benefits this January.

STATEMENT OF HON. TOM DASCHLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA

It now appears that the rate of inflation between the third quarter of 1983 and the third quarter of 1984 will fall under the 3 percent figure necessary to trigger a January cost of living increase. If so, senior citizens will have to wait until January, 1986, for their next cost of living increase. At that time, they will receive an increase based on the rate of inflation over the past two years (1984-85). We are thus faced with a question of whether to pay the 1984 increase this year or defer it to next year as current law would require. It is my view that the trigger provision should be waived so that the 1984 increase can be awarded this January.

Though the overall rate of inflation nation-wide has been relatively low, there have been substantial cost increases in certain areas which greatly burden our senior citizens. For instance, in my home state of South Dakota, there has been a 20-50 percent increase in natural gas rates, an indispensable means of home heating for many senior citizens in the bitterly cold South Dakota winters. Similarly, telephone rates have increased 9 percent. These are unavoidable costs which especially hurt these on fixed incomes, like senior citizens. If an increase is not awarded in January, 1985, our senior citizens will be asked to go over two and one-half years without a cost of living increase.

Though this committee deserves credit for reporting a legislative package which ensures the social security program's financial solvency, we must not lose sight of the fact that there are thousands of senior citizens who are not financially secure, and depend upon social security as their principal means of income. Many of them at this very minute are slipping slowly into the grips of poverty. We can avert this. A January cost of living increase, according to the American Association of Retired Persons, would prevent some 500,000 seniors from falling below the poverty level.

It is clear that an inflation-based cost of living increase effective January, 1985, will not necessitate drastic program changes in the Social Security Act of 1983, nor will it threaten the financial stability of the program. There is thus no justifiable reason to deny an increase now, when it is sorely needed. The alternative is to ask our seniors to endure increasing uncertainty while patiently waiting much longer. On behalf of the 120,000 South Dakotans receiving social security, I urge that you

waive the trigger provision so that this year's cost of living increase can be awarded in January, 1985.

STATEMENT OF THE FEDERAL PARTY OF THE UNITED STATES OF AMERICA

We thank you again for this opportunity to re-present our thoughts concerning the financing of the Social Security system. We have at past hearings presented our thoughts concerning the irresponsible overloading of the Social Security system, which has resulted in more than one crisis.

The Federal Party of the United States believes that the reduction of the Federal budget through the abolition of interest-bearing bonds would create more benefit for the recipients of Social Security than any nominal cost-of-living increase. Any monetary increase in Social Security payments only destabilizes the system's future.

By reducing the cost of manufacturing products through the monetization of the interest-bearing obligations of the government, not only the Social Security recipients, but all citizens could realize a substantial reduction in the costs of their needs.

We have in previous presentations shown how this could be accomplished. At the present time, the cost of capital is nearly equal to the cost of labor and raw materials, and thus not only is production stymied with resultant unemployment, but the consumer has difficulty in buying his needs.

When the consumer is unable to purchase what he needs, the producers are unable to maintain the employment of their workers. When unemployment rises, the government loses income. When government loses income, taxes are either maintained or increased.

The monetization of government interest-bearing obligations would hurt neither the poor or the rich, and all would benefit from reduced taxes, reduced capital costs to the tune of nearly 30 per cent. This is especially true concerning large ticket items, such as automobiles, refrigerators, etc.

It is indeed discouraging to note while this honorable body assiduously pursues many necessary things, the one item of monetizing the bonds and by doing so, increasing employment and reducing taxes has never been remotely considered, even though we have presented this possibility a number of times to your honorable Committee.

If your Committee is not under the control of some nefarious lobby, then the Federal Party sees absolutely no reason for not considering this method of relieving the financial burden on both the Social Security recipients, and the general public as well.

The Federal Party does not wish to become strident in this matter, but we do feel it is our duty to bang the drum loudly before we all dither down into a mass of incompetence.

We thank you sincerely for your courtesy in allowing us to again bring this to your attention.

INTERNATIONAL UNION, UNITED AUTOMOBILE,
AEROSPACE & AGRICULTURAL
IMPLEMENT WORKERS OF AMERICA—UAW,
Washington, DC, September 12, 1984.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: This statement is submitted by the UAW in connection with the hearing of the Ways and Means Committee on the social security cost of living increase. We ask that this statement be included in the hearing record.

The UAW supports action to amend the Social Security Act to remove the current 3% inflation trigger and to provide for the payment of annual Cost of Living Adjustments (COLAs) whatever the level of inflation happens to be a given year.

Thirty-six million Social Security beneficiaries would be well served by such an amendment. The principle underlying the Cost of Living Adjustment in Social Security is simple—to protect retirees and their families from an erosion of their standard of living. That goal is best met through timely adjustment of Social Security benefits in order to recognize on-going inflation. Current law, however, would delay full recognition of the erosion of purchasing power for many months in cases where inflation in a year is under 3%

As Congress deliberates on the issues related to the general goal of full and timely cost-of-living protection for Social Security beneficiaries, the UAW urges the Ways

and Means Committee to consider the following improvements in the legislation which was passed by the Senate:

1. The provision which relaxes the 3% inflation trigger should be made permanent. The bill passed by the Senate would remove the 3% trigger only for COLAs payable in January, 1985. Thus, if inflation was less than 3% in future years, retirees and their families would only have partial protection against an eroding standard of living because of the lag time in adjusting benefits under current law.

2. A provision should be added to limit the annual Medicare Part "B" premium increase (for those deducting the premium from Title II Social Security benefits) to the lesser of: the actual amount of premium increase, or the dollar amount of COLA payable to each individual for the preceding December. Such a provision is already contained in the Deficit Reduction Act of 1984, but it only applies to Medicare Part "B" premium increases in 1986 and 1987. An extension of this provision to the 1985 adjustment in Medicare premiums would protect beneficiaries with very low Title II benefits from suffering a net reduction in benefits. Those aided by such a change would typically be retirees who have already lost the protection of the $122 Minimum Benefit as a result of legislation in 1981.

Neither of these improvements would be very costly. The first would simply pay COLAs sooner than would be the case under current law, when inflation is under 3%. The second would only affect persons receiving very small social security benefits.

These improvements are consistent with the purpose underlying the Cost of Living Adjustment provisions of the Social Security Act, and would help to insure that retirees and their families are fully protected against a reduction in their standard of living because of inflation. The UAW therefore urges the Ways and Means Committee to consider these changes when it deals with legislation pertaining to the social security cost of living increase.

Sincerely,

DICK WARDEN,
Legislative Director.

TRAVERSE CITY, MI, *August 17, 1984.*

JOHN J. SALMON,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, DC.

GENTLEMEN: I would like to make a statement concerning the proposed cost of living increase in social security benefits. I believe that the increase is not appropriate because it creates an additional and unexpected burden on the social security system. Public confidence in the viability of the system is already low. Such a measure only further reduces public confidence.

As a tax return preparer I see the tax side of the social security system more closely than the benefit side. Some of my clients were in absolute shock over the amount of FICA taxes or self-employment tax they have come to pay in recent years. This situation will get considerably worse during 1984 with the increase in self-employment rate to 11.3%. In fact, I have a number of clients who pay no income tax whatever but pay a sizable self-employment tax.

Part of the psychological problem of those paying FICA and self-employment taxes is that those of us under age 50 have no expectation whatever that we will ever receive one dollar in social security benefits ourselves.

I hope you find this information useful in your deliberations. Thank you.

Very truly yours,

FORREST LEWIS, CPA.

STATEMENT OF ROBERT J. MYERS, SILVER SPRING, MD

Mr. Chairman and Members of the Committee: My name is Robert J. Myers, I served in various actuarial capacities with the Social Security Administration and its predecessor agencies from 1934 to 1970, being Chief Actuary the last 23 years. In 1981–82, I was Deputy Commissioner of Social Security. Then in 1982–83, I was Executive Director of the National Commission on Social Security Reform. In 1979–81, I was a member of the National Commission on Social Security, having been appointed by the House of Representatives.

I shall first give my views as to the elimination of the 3 percent trigger requirement for cost-of-living (COLA) increases for Social Security benefits. Then for the

record, I will describe how this COLA procedure operates under present law for 1983 and after. Finally, I will discuss the cost aspects of the proposal to eliminate the trigger for the December 1984 COLA—and also as to permanent elimination.

The latest available data on the CPI (through July) indicate the very strong likelihood that the increase from the third quarter of 1983 to the third quarter of 1984 will be about 2.8 or 2.9 percent. The possibility exists, considering the volatility of the CPI, that the rise could be 3.0 percent (or even somewhat more), in which event the immediate problem with which we are now concerned will have vanished. Nonetheless, I believe that action should be taken on the basis that the 3 percent trigger point will not be reached.

MY VIEWS ON PROPOSAL TO ELIMINATE THE 3 PERCENT TRIGGER

From a policy and program-design standpoint, the elimination of the 3 percent trigger requirement is very desirable. Such requirement was initially provided in legislation in 1972 solely for administrative reasons (because of the difficulty then of making the increase applicable to so many millions of checks). Now, as a result of improved operating efficiency, such reason is no longer pertinent.

Another reason for eliminating the trigger requirement as now in the law is that it over-benefits some beneficiaries—namely, those who first become eligible in the year after that in which the trigger requirement is not met. Specifically, under present law, let us assume that the CPI increase is 2.9 percent for the December 1984 COLA, and that arbitrarily the CPI increase from the third quarter of 1984 to the third quarter of 1985 is 5.0 percent.

Then, persons who were eligible for benefits in 1984 or before would receive no COLA until December 1985, when it would be 8.0 percent ($1.029 \times 1.050 - 1 = .080$). The beneficiaries who first become eligible in 1985 will, of course, receive no COLA until December 1985, but then, under present law, a COLA also amounting to 8.0 percent will be payable to them—although logically, they should receive only 5.0 percent (the reason that the overly large COLA is provided by the legislation for the last cohort of eligibles than the earlier eligibles is the administrative simplicity involved).

The result of the overly large COLA in December 1985 for the 1985 eligibles is to produce another "notch" problem—as between the 1985 and 1986 eligibles. And I would think that the Congress would wish to have no further "notch" situations such as occurred in the 1977 Act as between those who attained age 62 after 1978 as against those who did so in 1978 (i.e., those born in 1917 and later, versus those born in 1916 and earlier).

The extent of the "notch" that will arise unless the 3 percent trigger requirement is removed may be shown for two persons with maximum covered earnings in all years since 1951. The only difference between the two individuals is that one attained age 62 at the end of 1985, and the other did so a few days later, in early 1986. Let us assume the trend for the CPI is that as used previously and that the increase in the nationwide average wage (as used in the wage indexing series for the computation of the Primary Insurance Amount) is 5.0 percent from 1982 to 1983 (which is quite probable) and 4.0 percent from 1983 to 1984 (which is reasonable, based on current data).

The resulting Primary Insurance Amounts for these two individuals are as follows:

Individual who attains age 62 in—	If law is not changed	If 3 percent trigger is waived
1985	$809.10	$787.50
1986	775.00	[1] 775.70
Excess for 1985 case	34.10	11.80

[1] The PIA increased slightly because of the higher earnings base in 1985 under these assumptions ($39,600). Similar slight effect occurs for the 1985 case.

Thus, it can be seen that a significant "notch" will occur if the 3 percent trigger requirement is not waived for the December 1984 COLA. (The small difference remaining after such action is taken is something that tends to occur in all years under the otherwise necessary and reasonable decoupling procedure adopted in the 1977 Act. The difference, which arises from the effect of varying lags between wage

and price trends, will always be relatively small and can move in either direction in comparing one year's case with the next year's one.)

In summary, I strongly recommend that the 3 percent trigger requirement be eliminated permanently, and not solely for the December 1984 COLA. The result will be much more equitable and consistent treatment of beneficiaries. Furthermore, the long-range cost of the OASDI program will not be affected adversely, but rather will have a very small decrease, and the additional first-year cost can readily be borne, as a result of the very favorable experience to date as compared with the estimates made when the legislation was enacted—as will be discussed in detail hereafter.

DESCRIPTION OF COLA PROCEDURE FOR 1983 AND AFTER

Not considering the possibility of ad hoc benefit increases or the possibility of basing the COLAs on wage increases rather than CPI increases, the COLA procedure for 1983 and after is as follows:

For the December 1983 COLA, the percentage amount was based on the increase in the CPI from the last previous COLA computation quarter (1st quarter of 1982) to the current COLA computation quarter (1st quarter of 1983, as it is prescribed by Section 111(d) of the 1983 Act, which applied for the 1983 COLA to the law as it related to COLAs before 1984, regardless of whether the CPI increase percentage was at least 3.0 percent). Thus, the 1st quarter of 1983 was a COLA-computation quarter.

For the December 1984 COLA, the CPI increase percentage is measured from the most recent COLA computation quarter in 1983 to the base quarter in 1984 (the 3rd quarter). As it so happens, there are two COLA computation quarters in 1983—the 1st quarter (as derived in the previous paragraph) and the 3rd quarter (based on Section III(d) of the 1983 Act, which thus serves a duel purpose, one for the 1983 COLA and the other for the 1984 COLA, because such Section 111(d) has no effective date and thus applies to Section 215(i)(1) of the Social Security Act both as it was before being amended by Section 111(b) of the 1983 Act and afterward). The COLA computation quarter in 1983 to be used for the December 1984 COLA is thus the 3rd quarter of 1983, which is the "most recent" one (as prescribed in Section 215(i)(1)(D) of the Social Security Act). These procedures are accurately described in detail in the Conference Committee Report on the 1983 Act (House Report No. 98-47, page 121).

COST ASPECTS OF WAIVER OF 3 PERCENT TRIGGER REQUIREMENT FOR DECEMBER 1984 COLA

The waiver of the 3 percent trigger requirement for the December 1984 COLA has several diverse cost effects, as follows (based on the memorandum of July 27 from Harry C. Ballantyne, Chief Actuary, SSA, entitled "Estimated Effects of Proposal Affecting the December 1984 Benefit Increase", and other material from the Office of the Actuary, SSA, except as otherwise stated), as compared with present law in each case:

(1) Benefit outgo in 1985 would be increased by $4.8 billion (but would be $3.4 billion less than according to the intermediate (Alternative II-B) estimate in the 1984 OASDI Trustees Report—my estimate—so that, even after the waiver of the 3 percent trigger, everything else being equal, the OASDI Trust Funds would be in stronger condition than had been estimated last April.

(2) Benefit outgo in 1985 would be increased very slightly as a result of the increase in the exempt amounts under the retirement earnings test (increased cost included in item (1)).

(3) Benefit outgo in 1986, and for many years after, would be reduced as a result of preventing the windfalls otherwise payable to 1985 eligibles (all persons attaining age 62 in 1985, or dying or becoming disabled before age 62 in 1985, increasing rapidly to somewhat over $300 million in 1993 (and increasing slowly each year thereafter, until reaching a peak in a few years and then slowly declining, until being negligible in about 2025 and after—my estimate).

(4) OASDI tax income for 1985 would be increased by about $1.4 billion, as a result of the higher maximum taxable earnings base.

(5) HI tax income for 1985 would similarly be increased by about $350 million.

(6) There would also be other benefit cost effects. The additional benefits payable for 1985 would produce more income taxes that would revert to the OASDI Trust Funds (and a reverse effect would occur for the reduced benefits payable in future years resulting as described in item (3)). The increase in the earnings base (resulting as described in item (4)) would eventually result in slightly higher net benefit outgo,

when such credited earnings enter into the benefit computations for the persons affected.

From a cash-flow standpoint, the proposed change would result in an excess of income over outgo for the OASDI Trust Funds of about $3.4 billion for 1985 as compared with present law. Nonetheless, the fund balance at the end of the year would increase by a substantial amount, $11.2 billion. This should be compared with an estimated $9.1 billion in the intermediate estimate of the 1984 Trustees Report and, even more importantly, as against an estimated $4.9 billion in the intermediate-cost estimate of the 1983 Trustees Report and only $2.3 billion in the pessimistic-cost (Alternative III) estimate, which was, in essence, the estimate on which the financing of the 1983 Act was based).

From a long-range standpoint, we must first note that the balance of the OASDI Trust Funds will be lower, under the current estimates for a number of years if the proposal is adopted than under existing law. This will occur because of the high interest rates currently available to the trust funds, which produce income that largely offsets, for some years, the savings due to eliminating the windfall benefits for the 1985 eligibles. (If interest rates are not as high as assumed in 1985 and after, the situation would be quite different.)

In 1993, the fund balance at the end of the year is estimated at $447.2 billion under the proposal, as against $452.8 billion under existing law, or $5.6 billion less. This does not mean that the proposal has a cost of $5.6 billion as of 1984; the 1993 figure must be discounted at interest to 1985 and is then $3.3 billion (my computation).

More importantly, the estimated balance of the OASDI Trust Funds at the end of 1993 under the proposal ($447.2 billion) is far above the intermediate estimate in the 1984 Trustees Report of $389.1 billion, and even further above the intermediate estimate in the 1983 Trustees Report (i.e., that made just after the enactment of the 1983 Act) of $300.1 billion. The small estimated decrease in the fund balance at the end of 1993 of $5.6 billion as a result of the proposal (which would be much smaller if interest rates are lower than estimated) is a relative decrease of only 1.2 percent, whereas the fund balance under the proposal is 49 percent higher than had been estimated for the intermediate-cost estimate for that date when the 1983 Act was enacted.

Finally, I have projected beyond 1993 the savings from eliminating the windfall benefits for the 1985 eligibles that waiver of the 3 percent trigger for the December 1984 COLA would produce. Then, in order to make the additional costs and the additional revenues and savings be comparable, I have obtained the present value in 1985 of the windfall-benefits savings, using the interest rates in the Alternative II-B estimate of the 1983 Trustees Report. The net result is that the cost in 1985 for paying the COLA by waiver of the 3 percent trigger is almost exactly balanced by the additional income from the OASDI taxes and the present value of the eliminated windfall benefits for the 1985 eligibles (the additional income from the HI taxes is not considered).

In summary then, regardless of the merits of the proposal (of which I believe that there are overwhelming ones), the net additional cost over the long run after considering all factors is, at most, very small (less than $100 million), and possibly even negative (i.e., a savings). The financial status of the OASDI Trust Funds in the short run, even though very slightly worse than under present law, is far better under the proposal than was anticipated under existing law in the 1984 Trustees Report, and even more so than was estimated when the 1983 Act was enacted. Also, the financial status of the HI Trust Fund, which is none too good over the long run, would be somewhat improved by the proposal.

COST ASPECTS OF PERMANENT ELIMINATION OF 3 PERCENT TRIGGER REQUIREMENT FOR COLA'S

In my opinion, the permanent elimination of the 3 percent trigger requirement for COLAs would, if anything, result in a very small decrease in the overall long-range cost of the OASDI program. The effect of increasing the maximum taxable earnings base for the next year and of eliminating, for all future years, the windfall for new eligibles of such year (and thus avoiding a notch situation relative to new eligibles of the following year) would more than offset the granting of the COLA for previous years' eligibles for the one-year period involved. This is so if the normal relationship between interest rates and CPI increases prevails (i.e., the former being about 2 percent more than the latter).

STATEMENT OF THE RAILROAD RETIREMENT ASSOCIATION, L.L. DUXBURY, PRESIDENT

This association is an individual membership, nonprofit association, without capital stock, under the nonprofit corporation code of the District of Columbia, with the members holding full voting power in the business and affairs of the association. The association is not in any way affiliated with any element of the railroad industry nor with any element of the railroad labor organizations. The association is designed, organized and structured to be governed by and for, and to serve the interests of, only individuals with vested rights in the Railroad Retirement System, including individuals presently drawing benefits as well as those with vested rights to be exercized in the future.

This committee has been told of the plight of Social Security beneficiaries who, because of the delay in the 1983 COLA, have had only one Social Security increase since June 1982 and will have "to face three-and-a-half years with but a single inflation adjustment in their benefits", unless legislation is passed to guarantee a December 1984 COLA.

The purpose of this statement is to remind the committee that there are hundreds of thousands of Social Security beneficiaries who had no Social Security COLA in the more than two years since June 1982. They are the railroad retiree Social Security beneficiaries who retired before 1984. Under the 1983 railroad retirement law, sec. 102 Public Law 98-76, their December 1983 Social Security increase was taken away from them by permanently reducing their railroad retirement tier II benefit by the dollar amount of that Social Security increase.

That same pre-1984 retiree group will be denied the full benefit of a December 1984 Social Security increase because that 1983 railroad retirement law will take away from them a one-and-one-half percent Social Security increase by further permanently reducing their railroad retirement tier II benefit by that dollar amount.

There will be another class of railroad retiree Social Security beneficiary, those who retired on or after January 1, 1984. That group will receive the full December 1984 Social Security increase, and also their full, unreduced tier II benefit.

It is not the purpose or intention of this statement to ask, or expect, the committee to re-examine the equities of that 1983 railroad retirement law at this time. The committee now has before it the June 29, 1984 report of the Labor-Management Committee created by section 504 of that 1983 law to study and report to the Congress on various aspects of the Railroad Unemployment Insurance System and the payment of the debt of that unemployment system to the Railroad Retirement Fund. The subcommittee on public assistance and unemployment compensation has held one hearing on that report. Further congressional consideration of, and action on, the recommendations in that report will have to go over to the next session.

The recommendations in that report will unavoidably involve re-examination of that 1983 railroad retirement law and implementation of the major recommendations in that report will require significant substantive amendments of that 1983 railroad retirement law, including provisions relating to the debt to the railroad retirement fund and the taxes for the re-payment of that debt.

It is the purpose of this statement to respectfully urge the members of the committee to favorably consider including in the bill to guarantee a December 1984 Social Security increase a provision to allow pre-1984 railroad retiree Social Security beneficiaries to enjoy a full Social Security increase after two and one-half years of "Drouth". This can be accomplished in the pending legislation without damaging or endangering the financial package which this committee put together as Public Law 98-76.

In recommending to the Congress in their June 29, 1984 report that the interest on the unemployment insurance system debt to the railroad retirement fund be waived from and after September 1980, the Labor-Management Committee said on page 3-8:

"Based upon projections by the Actuaries of the Railroad Retirement Board, the Railroad retirement account should be in a sound financial condition for the foreseeable future, including through the year 2000, even though interest is not paid on its loan to the RUI account."

The report does not state the amount of money involved in the recommended forgiveness of interest, but it does estimate that the amount of unpaid interest will be $200 million on October 1, 1985.

Further evidence that pre-1984 railroad retiree Social Security beneficiaries can be given some relief without damaging or endangering that 1983 package is to be found in a July 31, 1984 report from the Railroad Retirement Board to the chairman of the Senate Committee on Finance, in which the Board discussed "the possibility . . . of postponing the second phase of the offset rather than eliminating

it. Under this alternative, no offset would be made in tier 2 benefits for the tier I cost-of-living increase occurring on January 1, 1985. The remaining 1.5 percent offset called for by the solvency act would occur when benefits are first increased after January 1, 1985, which would probably be January 1, 1986. The cost of this alternative is . . . $56 million . . . for 1985, and nothing thereafter. The reduction in the balance for December 31, 2000 would be about $157 million.

The estimates of the Board in that July 31st report show that the cut in the tier II benefits of that pre-1984 group has been about $11 monthly since January 1, 1984, that through the year 2000 that cut will total over $1.7 billion. And that's without the second cut which will be made January 1, 1985 unless that cut is postponed or eliminated. The Board's estimates in that report indicate that the second cut would increase that total over the period through the year 2000 to over $2.4 billion.

Respectfully suggested for the committee's consideration is a possible amendment to H.R. 6019 consisting of the insertion of a new section 3 immediately following sec. 2, reading as follows:

Sec. 3. Any law to the contrary notwithstanding, no part of the December 1984 Social Security increase shall be deducted from any railroad retirement tier II monthly annuity under the Railroad Retirement Act of 1974 as amended.

This would not be an amendment of that railroad retirement law; it would only postpone the second cut because the wording of section 102 of the 1983 law is such that the second cut would be made at the time of the payment of the next Social Security increase after the December 1984 increase, and this would be the result without any change in that 1983 railroad retirement law.

In addition to providing that pre-1984 retiree group some relief from the "Drouth" by merely delaying the second cut, it maintains the status quo until Congress Reexamines that 1983 law in the context of changes recommended by the Labor-Management RUI Committee. The tax for re-payment of the RUI debt does not take effect under that 1983 law until July 1, 1986.

Statement of James Roosevelt, Chairman, the National Committee To Preserve Social Security and Medicare

On behalf of the 650,000 members of the National Committee to Preserve Social Security and Medicare, I urge the House of Representatives to act quickly to guarantee the cost-of-living adjustment (COLA) for Social Security beneficiaries payable beginning January 1985. The President has promised to sign such legislation and the Senate acted almost two months ago. If the House fails to act, the average couple on Social Security would be denied $252 in benefits next year. The average individual would lose $144.

Congressional action is needed because inflation is projected to be only 2.9 percent while under current law the COLA will not be paid unless inflation is at least 3 percent. Denying next year's COLA is inequitable and arbitrary. The cost is minimal compared to the hardship it will cause Social Security beneficiaries. Inflation of 2.9 percent has practically the same adverse effect on the income of the elderly as inflation of 3.0 percent.

In fact, since the last COLA measurement, beneficiaries will have actually experienced inflation of 5.3 percent. The 1983 Social Security Amendments not only delayed payment of the COLA six months but also changed the measuring period from first quarter to third quarter beginning with the January 1985 COLA. The measuring period for the January 1984 COLA ended with the first quarter of 1983. The projected January 1985 COLA of 2.9 percent is from the third quarter of 1983 to the third quarter of 1984. The inflation between first and third quarter of 1983—for which no COLA ever will be paid—is 2.4 percent. Therefore, prices will have risen 2.4 plus 2.9 percent, or a total of 5.3 percent.

Denying the COLA to Social Security beneficiaries is particularly unfair after Congress recently approved an increase in Medicare Part B premiums at a rate greater than inflation in 1985 and 1986. Many members of our organization wrote letters to Congress urging adoption of the House version of the Deficit Reduction Act which limited premium increases to the COLA percentage. The conference committee, however, recommended increasing premiums to cover 25 percent of Part B costs in 1985 and 1986. Social Security beneficiaries will have to cope with these higher costs with no increase in their income next year unless the COLA law is changed.

Arbitrariness is also a problem in denying the COLA next year. The Social Security COLA is based on the Consumer Price Index for urban wage earners and clerical workers called "CPI-W." The most widely quoted measure of inflation, however, is

the Consumer Price Index for urban consumers, "CPI-U." Inflation as measured by CPI-U is already 3.1 percent over only a nine-month period. The Social Security COLA would have triggered if based on CPI-U. There is also unequal treatment between the Social Security COLA and the new indexation of income tax brackets beginning in 1985, because indexation of tax brackets will be based on CPI-U.

The net cost of the COLA increase in 1985 will not be $5 billion as reported, but $3.3 billion. The cost is partially offset by the additional $1.7 billion in revenue resulting from the automatic increase in the taxable wage base. In the long run, there will be little additional cost since the next COLA payment would reflect the cumulative inflation over 2 years. This COLA would be paid to all beneficiaries, even those who became eligible only in the last year.

According to the American Association of Retired Persons, 500,000 more senior citizens will drop below the poverty line without the COLA in January 1985. The number of the elderly under the poverty line in 1983 according to the Census Bureau was 3,711,000 or 14.1 percent of the elderly. An increase of 500,000 more elderly under the poverty line would raise the percentage almost two points.

Retirees on fixed incomes depend on the automatic increase in their Social Security pension to make up for the real inflation they have to cope with every week in supermarket lines, their doctors' waiting rooms, and their rent and utility bills. The cost-of-living is going up whether or not they receive the COLA. It is unfair to leave senior citizens in uncertainty for months, unable to budget their meager resources for the coming year. I urge you to preserve the COLA for Social Security beneficiaries in January 1985

Statement of Hon. James H. Quillen, a Representative in Congress From the State of Tennessee

Mr. Chairman and members of the committee, I wish to support congressional action to provide the payment of a Social Security cost-of-living increase in January, 1985 regardless of whether the inflation rate index is high enough to provide such a benefit increase under the current law. I urge you to support either the bill sponsored by Mr. Conable or a similar bill which has already passed the Senate.

As you know, the Social Security Act provides for an annual cost-of-living increase only when the increase in the cost of living is more than three percent over the preceding period of time. It now appears that this year's increase will be somewhat less than three percent.

The proposals I support would not have an adverse effect on the Social Security trust funds. The cost for this cost-of-living increase in January is below projections for the cost of the COLA by the Social Security trustees and by the administration in its budget, because both had estimated increases in the Consumer Price Index of over four percent.

I believe it would be unfair to deny this cost-of-living adjustment to those depending on their Social Security checks. The cost is minimal compared to the hardship it will cause many people. We are all pleased with the low rate of inflation that has been achieved, but allowing a cost-of-living increase only after a three percent rise in inflation is arbitrary and harmful to our senior citizens. Thank you.

Statement of Hon. Bill Young, a Representative in Congress From the State of Florida

Mr. Chairman, I want to thank you for the opportunity to present testimony today before your Committee on the important issue of providing cost-of-living increases to our nation's 37 million social security recipients and the 3.9 million people who receive supplemental security income. You and the members of your Committee are to be commended for your responsible and prompt actions during this Congress to ensure the future financial integrity of the social security system while at the same time guaranteeing that current beneficiaries of the program are not unfairly penalized by the loss of the benefits they have earned through their contributions to the system during their working years.

As the representative of 230,000 social security recipients in Pinellas County, Florida, who receive more than $1.1 billion annually in benefits, I am well aware of the special needs of retired workers living on fixed incomes. Of major importance is their annual cost-of-living increase. These annual increases are the only means that many older Americans have to keep pace with rising housing, food, and medical costs.

Prior to 1975, social security recipients were left to the whims of Congress for their cost-of-living increases. In those years, when it was advantageous for Congress, large cost-of-living increases would be approved. Other years, there would be no increases.

One of the first bills I introduced in January 1972 as a newly elected member of Congress, would have established automatic annual cost-of-living increases for social security recipients based on the consumer price index. This legislation, which was approved by the Congress in June 1972 as an amendment to another bill and was signed into law the following month, provided for automatic cost-of-living increases every year in which the consumer price index rose more than 3 percent.

The 3 percent level was established because the Social Security Administration determined the administrative costs of calculating and paying out a benefit increase of less than 3 percent would have been prohibitively expensive. Since 1972, the consumer price index has never fallen below 3 percent, so this provision has not been put into effect. It appears, however, that as a result of our current economic policies, which have been highly successful in reducing inflation, the consumer price index will fall below 3 percent this year, raising concern that social security recipients would receive no benefit increase January 1.

Social security recipients should not be penalized for our success in reducing inflation. Even though the cost of living, as measured by the consumer price index, is under control, older Americans still incur higher costs, especially in housing and medical care.

The purpose of your hearing today is to consider legislation I have cosponsored to ensure that social security recipients receive a cost-of-living increase this year and in future years regardless of whether the consumer price index falls below 3 percent. As a member of the House Appropriations subcommittee which oversees the funding for the Social Security Administration, I am well aware that the special provision included in the 1972 legislation is now out-dated. Our subcommittee, during the last few years, has appropriated large sums of money to the Social Security Administration to upgrade its antiquated computer system. One important result, in addition to improved overall service to all social security recipients, is that it is no longer economically or administratively infeasible to administer cost-of-living increases of less than 3 percent.

Therefore, Mr. Chairman, it is my hope that your Committee and the House will act expenditiously to assure our nation's social security recipients that they will receive their annual cost-of-living increase as scheduled on January 1. For the average couple who receives $700 a month in social security benefits, the projected increase will be $21 per month or $252 per year. This may not seem like a large sum of money to our colleagues in Washington who deal in millions and billions of dollars, but having met and worked with thousands of Pinellas County social security recipients over the years, I can assure you that any cost-of-living increase, no matter how small, is a welcome relief to these people because it often means the difference between being able to purchase or having to do without the daily necessities of life. Thank you Mr. Chairman.

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